



## HTRZ Review

# Governor's Office of Economic Opportunity Salt Lake City Central HTRZ Supplemental Gap Analysis

April 10, 2025



ZIONS PUBLIC FINANCE, INC.

## SUPPLEMENTAL GAP ANALYSIS

This Supplemental Gap Analysis has been prepared to incorporate the additional information provided by Salt Lake City regarding the increased costs associated with enhanced residential and commercial development in the station area. Enhanced construction results in greater density in an area which means increased costs for building heights and structured parking.

The prior Salt Lake City Central HTRZ Review by ZPFI, dated December 26, 2024, provides details regarding parking costs, affordable housing, land acquisition by the RDA, Green Loop improvements, streetscape and utility upgrades. A summary of those costs are included herein while noting that the analysis for these cost components has not changed from the prior report. Please refer to the December 26, 2024 Salt Lake City Central HTRZ Review for detailed information on those development costs. This Supplemental Gap Analysis focuses solely on the additional information provided by Salt Lake City regarding its projections for enhanced residential and commercial development in the area and the accompanying added construction costs.

Our approach includes a valuation analysis of residential and nonresidential development for phases 1 and 2, comparing market-driven development with enhanced development. The gap analysis shows the additional dollar amount (“gap”) required for the enhanced development to provide similar returns to a developer as a market-driven scenario, thereby making it equally attractive to developers.

### Executive Summary

The supplemental analysis assumes the following enhanced development scenario which is unchanged from the initial application.

TABLE 1: DEVELOPMENT PROJECTIONS

Development Summary - Enhanced	Phase 1	Phase 2	Total
Residential Units	3,072	2,718	5,790
Office	1,017,449	2,275,785	3,293,234
Hotel	150	175	325
Retail	403,775	220,584	624,359

The gap analysis shows a total gap of nearly \$1.5 billion, with approximately \$1.0 billion coming from the added construction costs of higher-density construction.

TABLE 2: GAP ANALYSIS SUMMARY

Gap Summary	Amount
Enhanced Residential Construction Phase 1	\$150,000,000
Enhanced Commercial Construction Phase 1	\$230,000,000
Enhanced Residential Construction Phase 2	\$140,000,000
Enhanced Commercial Construction Phase 2	\$500,000,000
Parking	\$115,239,294

Gap Summary	Amount
Affordable Housing	\$73,000,000
Land Acquisition - 5 acres at \$6.6M per acre	\$33,000,000
Green Loop - 6 blocks at \$10M per acre	\$60,000,000
Streetscape & Utility Upgrades	\$181,590,434
<b>TOTAL</b>	<b>\$1,482,829,728</b>

The Applicant projects \$550 million in tax increment funds should be available over a 30-year period, assuming 80 percent of the increment for a maximum of 25 years per parcel. This projection is similar to Applicant's initial projection of \$578 million and ZPFI's initial review which showed \$538 million. Note that the total number of units to be developed has not changed from the initial application.

## Valuation Analysis – Residential Development Phase 1

ZPFI has not conducted a market analysis of the feasibility of the product type being absorbed into the market within the timelines presented in the Application. Our review is limited to assessing the value of the proposed development in today's market given current rent rates, construction costs and cap rates and comparing market-driven development with enhanced development.

### Market Driven Residential Development Phase 1

Under a market-driven approach, plans are for 1,897 market-rate units and 100 units affordable to households making 80 percent of the area median income (AMI).

TABLE 3: MARKET-DRIVEN RESIDENTIAL DEVELOPMENT PROJECTIONS – PHASE 1

Market Rent	80% AMI Rent	60% AMI Rent	Market Units	80% Units	60% Units	Annual Rent
Studios	\$1,550	\$1,378	\$1,033	360	19	-
1 Bedroom	\$1,950	\$1,733	\$1,299	930	49	-
2 Bedrooms	\$2,500	\$2,222	\$1,665	493	26	-
3 bedrooms	\$2,727	\$2,424	\$1,817	114	6	-
<b>TOTAL</b>				<b>1,897</b>	<b>100</b>	<b>\$49,179,516</b>

Assuming a vacancy rate of 5.5 percent and standard operating expenses results in a net operating income (NOI) of \$38.1 million.

TABLE 4: MARKET-DRIVEN RESIDENTIAL NET OPERATING INCOME – PHASE 1

Description	Amount
<b>REVENUES</b>	
Annual Rents	\$49,179,516
Other Income	\$8,555,148
Less: Vacancies	(\$2,704,873)
<b>EGI</b>	<b>\$55,029,791</b>
<b>EXPENSES</b>	
Operating Expenses	(\$5,799,288)

Description	Amount
Mgt Fee @ 4%	(\$2,201,192)
Internet/Smart Home (Market Rate Units)	(\$599,100)
Trash	(\$239,640)
Utilities	(\$1,797,300)
Taxes	(\$4,505,232)
Insurance	(\$1,749,372)
Operating Expenses	<b>(\$16,891,124)</b>
 <b>NOI</b>	 <b>\$38,138,667</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 5: MARKET-DRIVEN RESIDENTIAL CONSTRUCTION COSTS – PHASE 1

Construction Costs - Residential	Amount
Land Acquisition	\$13,978,181
Hard Costs	\$546,463,159
Soft Costs	\$152,547,881
<b>Total Residential Construction</b>	<b>\$712,989,221</b>

Current cap rates for apartments in Salt Lake City are averaging between 5.0 and 5.5 percent. Newer product in a favorable location, such as near a major transit hub, would have a lower cap rate. The profit on cost calculated below will be compared, later in this report, with the profit on cost for enhanced development and the resulting need for additional funds.

TABLE 6: MARKET-DRIVEN RESIDENTIAL PROFIT ON COST PHASE 1

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$712,989,221	\$38,138,667	\$847,525,933	18.9%
5.00%	\$712,989,221	\$38,138,667	\$762,773,340	7.0%
5.25%	\$712,989,221	\$38,138,667	\$726,450,800	1.9%
5.50%	\$712,989,221	\$38,138,667	\$693,430,309	-2.7%
6.00%	\$712,989,221	\$38,138,667	\$635,644,450	-10.8%

### Enhanced Residential Development Phase 1

Under an enhanced development approach, plans are for 2,704 market-rate units, 276 units affordable to households making 80 percent of the area median income (AMI) and 92 units making 60 percent of AMI.

TABLE 7: ENHANCED RESIDENTIAL DEVELOPMENT PROJECTIONS – PHASE 1

	Market Rent	80% AMI Rent	60% AMI Rent	Market Units	80% Units	60% Units	Annual Rent
Studios	\$1,550	\$1,378	\$1,033	406	41	14	\$8,403,120
1 Bedroom	\$1,950	\$1,733	\$1,299	1,217	124	41	\$31,695,612

	Market Rent	80% AMI Rent	60% AMI Rent	Market Units	80% Units	60% Units	Annual Rent
2 Bedrooms	\$2,500	\$2,222	\$1,665	811	83	28	\$27,102,552
3 bedrooms	\$2,727	\$2,424	\$1,817	270	28	9	\$9,846,180
<b>TOTAL</b>				<b>2,704</b>	<b>276</b>	<b>92</b>	<b>\$77,047,464</b>

Assuming a vacancy rate of 5.5 percent and standard operating expenses results in a net operating income (NOI) of \$59.9 million.

TABLE 8: ENHANCED RESIDENTIAL NET OPERATING INCOME – PHASE 1

Description	Amount
<b>REVENUES</b>	
Annual Rents	\$77,047,464
Other Income	\$13,160,448
Less: Vacancies	(\$4,237,611)
<b>EGI</b>	<b>\$85,970,301</b>
<b>EXPENSES</b>	
Operating Expenses	(\$8,921,088)
Mgt Fee @ 4%	(\$3,438,812)
Internet/Smart Home (Market Rate Units)	(\$921,600)
Trash	(\$368,640)
Utilities	(\$2,764,800)
Taxes	(\$6,930,432)
Insurance	(\$2,691,072)
Operating Expenses	(\$26,036,444)
<b>NOI</b>	<b>\$59,933,857</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 9: ENHANCED RESIDENTIAL CONSTRUCTION COSTS – PHASE 1

Construction Costs - Residential	Amount
Land Acquisition	\$13,978,181
Hard Costs	\$982,787,477
Soft Costs	\$273,345,995
<b>Total Residential Construction</b>	<b>\$1,270,111,653</b>

Current cap rates for apartments in Salt Lake City are averaging between 5.0 and 5.5 percent. Newer product in a favorable location, such as near a major transit hub, would have a lower cap rate.

TABLE 10: ENHANCED RESIDENTIAL PROFIT ON COST PHASE 1

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$1,270,111,653	\$59,933,857	\$1,331,863,498	4.9%
5.00%	\$1,270,111,653	\$59,933,857	\$1,198,677,148	-5.6%
5.25%	\$1,270,111,653	\$59,933,857	\$1,141,597,284	-10.1%
5.50%	\$1,270,111,653	\$59,933,857	\$1,089,706,499	-14.2%
6.00%	\$1,270,111,653	\$59,933,857	\$998,897,624	-21.4%

For the profit on cost shown in Table 10 above for enhanced residential development to be similar to the market-driven profit on cost shown in Table 6, it would require public assistance in the range of \$150 million for phase 1 for the residential development.

## Valuation Analysis - Market Driven Residential Development Phase 2

Under a market-driven approach, plans are for 1,680 market-rate units and 88 units affordable to households making 80 percent of the area median income (AMI).

TABLE 11: MARKET-DRIVEN RESIDENTIAL DEVELOPMENT PROJECTIONS – PHASE 2

	Market Rent	80% AMI Rent	60% AMI Rent	Market Units	80% Units	60% Units	Annual Rent
Studios	\$1,550	\$1,378	\$1,033	319	17	-	\$6,214,512
1 Bedroom	\$1,950	\$1,733	\$1,299	823	43	-	\$20,152,428
2 Bedrooms	\$2,500	\$2,222	\$1,665	437	23	-	\$13,723,272
3 bedrooms	\$2,727	\$2,424	\$1,817	101	5	-	\$3,450,564
<b>TOTAL</b>				<b>1,680</b>	<b>88</b>		<b>\$43,540,776</b>

Assuming a vacancy rate of 5.5 percent and standard operating expenses results in a net operating income (NOI) of \$33.9 million.

TABLE 12: MARKET-DRIVEN RESIDENTIAL NET OPERATING INCOME – PHASE 2

Description	Amount
<b>REVENUES</b>	
Annual Rents	
	\$43,540,776
Other Income	\$7,765,056
Less: Vacancies	(\$2,394,743)
<b>EGI</b>	<b>\$48,911,089</b>
<b>EXPENSES</b>	
Operating Expenses	(\$5,134,272)
Mgt Fee @ 4%	(\$1,956,444)
Internet/Smart Home (Market Rate Units)	(\$530,400)
Trash	(\$212,160)
Utilities	(\$1,591,200)
Taxes	(\$3,988,608)

Description	Amount
Insurance	(\$1,548,768)
Operating Expenses	(\$14,961,852)
<b>NOI</b>	<b>\$33,949,238</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 13: MARKET-DRIVEN RESIDENTIAL CONSTRUCTION COSTS – PHASE 2

Construction Costs - Residential	Amount
Land Acquisition	\$13,183,342
Hard Costs	\$483,906,312
Soft Costs	\$135,095,696
<b>Total Residential Construction</b>	<b>\$632,185,350</b>

Current cap rates for apartments in Salt Lake City are averaging between 5.0 and 5.5 percent. Newer product in a favorable location, such as near a major transit hub, would have a lower cap rate. The profit on cost calculated below will be compared, later in this report, with the profit on cost for enhanced development and the resulting need for additional funds.

TABLE 14: MARKET-DRIVEN RESIDENTIAL PROFIT ON COST – PHASE 2

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$632,185,350	\$33,949,238	\$754,427,505	19.3%
5.00%	\$632,185,350	\$33,949,238	\$678,984,755	7.4%
5.25%	\$632,185,350	\$33,949,238	\$646,652,148	2.3%
5.50%	\$632,185,350	\$33,949,238	\$617,258,868	-2.4%
6.00%	\$632,185,350	\$33,949,238	\$565,820,629	-10.5%

## Enhanced Residential Development Phase 2

Under an enhanced development approach, plans are for 2,393 market-rate units, 244 units affordable to households making 80 percent of the area median income (AMI) and 81 units making 60 percent of AMI.

TABLE 15: ENHANCED RESIDENTIAL DEVELOPMENT PROJECTIONS – PHASE 2

	Market Rent	80% AMI Rent	60% AMI Rent	Market Units	80% Units	60% Units	Annual Rent
Studios	\$1,550	\$1,378	\$1,033	359	37	12	\$7,437,984
1 Bedroom	\$1,950	\$1,733	\$1,299	1,077	110	37	\$28,066,116
2 Bedrooms	\$2,500	\$2,222	\$1,665	718	73	24	\$23,965,992
3 bedrooms	\$2,727	\$2,424	\$1,817	239	24	8	\$8,693,580
<b>TOTAL</b>				<b>2,393</b>	<b>244</b>	<b>81</b>	<b>\$68,163,672</b>

Assuming a vacancy rate of 5.5 percent and standard operating expenses results in a net operating income (NOI) of \$53.0 million.

TABLE 16: ENHANCED RESIDENTIAL NET OPERATING INCOME – PHASE 2

Description	Amount
<b>REVENUES</b>	
Annual Rents	\$68,163,672
Other Income	\$11,643,912
Less: Vacancies	(\$3,749,002)
<b>EGI</b>	<b>\$76,058,582</b>
<b>EXPENSES</b>	
Operating Expenses	(\$7,893,072)
Mgt Fee @ 4%	(\$3,042,343)
Internet/Smart Home (Market Rate Units)	(\$815,400)
Trash	(\$326,160)
Utilities	(\$2,446,200)
Taxes	(\$6,131,808)
Insurance	(\$2,380,968)
Operating Expenses	<b>(\$23,035,951)</b>
<b>NOI</b>	<b>\$53,022,631</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 17: ENHANCED RESIDENTIAL CONSTRUCTION COSTS – PHASE 2

Construction Costs - Residential	Amount
Land Acquisition	\$13,183,342
Hard Costs	\$870,282,024
Soft Costs	\$241,646,842
<b>Total Residential Construction</b>	<b>\$1,125,112,208</b>

Current cap rates for apartments in Salt Lake City are averaging between 5.0 and 5.5 percent. Newer product in a favorable location, such as near a major transit hub, would have a lower cap rate.

TABLE 18: ENHANCED RESIDENTIAL PROFIT ON COST PHASE 2

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$1,125,112,208	\$53,022,631	\$1,178,280,684	4.7%
5.00%	\$1,125,112,208	\$53,022,631	\$1,060,452,615	-5.7%
5.25%	\$1,125,112,208	\$53,022,631	\$1,009,954,872	-10.2%
5.50%	\$1,125,112,208	\$53,022,631	\$964,047,832	-14.3%
6.00%	\$1,125,112,208	\$53,022,631	\$883,710,513	-21.5%

For the profit on cost shown in Table 18 above for enhanced residential development to be similar to the profit on cost shown in Table 14 for market-driven residential development, it would require public assistance in the range of \$140 million for phase 2.

## Valuation Analysis – Commercial Development Phase 1

While the Applicant provides development projections for office, hotel and retail development, sufficient information to conduct a valuation analysis was provided only for office and retail development.

### Market Driven Commercial Development Phase 1

Under a market-driven approach, plans are for 661,342 sf of office space, 98 hotel units and 262,453 sf of retail space.

TABLE 19: MARKET COMMERCIAL DEVELOPMENT PROJECTIONS – PHASE 1

	SF	Rent	Vacancy	Annual Rent before Vacancy	Annual Rent After Vacancies
Office	661,342	\$20	10.0%	\$13,226,840	\$11,904,156
Hotel	98	\$275	30.0%	\$9,836,750	\$6,885,725
Retail	262,453	\$35	5.0%	\$9,185,855	\$8,726,562
<b>TOTAL</b>				<b>\$32,249,445</b>	<b>\$27,516,443</b>

The following analysis evaluates office and retail development only.

TABLE 20: MARKET COMMERCIAL NET OPERATING INCOME – PHASE 1

Description	Amount
<b>Revenues</b>	
Rent After Vacancy less Hotel	\$20,630,718
Reimbursements	\$5,000,000
<b>TOTAL</b>	<b>\$25,630,718</b>
<b>Operating Expenses</b>	
Operating Expenses	(\$4,618,975)
Management	(\$768,922)
Taxes	(\$1,847,590)
Insurance	(\$923,795)
<b>TOTAL</b>	<b>(\$8,159,282)</b>
<b>NOI</b>	<b>\$17,471,437</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 21: MARKET COMMERCIAL CONSTRUCTION COSTS – PHASE 1

Construction Cost	Office	Retail
Hard Costs	\$153,162,200	\$60,782,427
Soft Costs	\$22,974,330	\$9,117,364
Contingency	\$1,148,716	\$455,868
Dev Fee	\$8,864,262	\$3,517,783
Financing Expenses	\$12,252,976	\$4,862,594
<b>TOTAL</b>	<b>\$198,402,484</b>	<b>\$78,736,036</b>
<b>Office and Retail</b>		
Land Cost	\$9,912,591	
<b>TOTAL Cost</b>	<b>\$287,051,111</b>	

Current cap rates for office in Salt Lake City are around 7.0 percent making office development not feasible under current market conditions. High vacancy rates are keeping rents low which have been outpaced by rising construction costs. Retail development is doing somewhat better than office development with cap rates generally ranging between 5.5 percent to 6.5 percent. While retail development is occurring in Salt Lake under market conditions, it is grouped with office in the analysis below, thereby making it appear more unfavorable than is the actual case under current market conditions.

TABLE 22: MARKET-DRIVEN COMMERCIAL PROFIT ON COST PHASE 1

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$287,051,111	\$17,471,437	\$388,254,149	35.3%
5.00%	\$287,051,111	\$17,471,437	\$349,428,734	21.7%
5.25%	\$287,051,111	\$17,471,437	\$332,789,271	15.9%
5.50%	\$287,051,111	\$17,471,437	\$317,662,486	10.7%
6.00%	\$287,051,111	\$17,471,437	\$291,190,612	1.4%

### Enhanced Commercial Development Phase 1

Under an enhanced construction approach, plans are for 1,017,449 sf of office space, 150 hotel units and 403,775 sf of retail space.

TABLE 23: ENHANCED COMMERCIAL DEVELOPMENT PROJECTIONS – PHASE 1

	SF	Rent	Vacancy	Annual Rent before Vacancy	Annual Rent After Vacancies
Office	1,017,449	\$20	10.0%	\$20,348,980	\$18,314,082
Hotel	150	\$275	30.0%	\$15,056,250	\$10,539,375
Retail	403,775	\$35	5.0%	\$14,132,125	\$13,425,519
<b>TOTAL</b>				<b>\$49,537,355</b>	<b>\$42,278,976</b>

The following analysis evaluates office and retail development only.

TABLE 24: ENHANCED COMMERCIAL NET OPERATING INCOME – PHASE 1

Description	Amount
<b>Revenues</b>	
Rent After Vacancy less Hotel	\$31,739,601
Reimbursements	\$8,000,000
<b>TOTAL</b>	<b>\$39,739,601</b>
<b>Operating Expenses</b>	
Operating Expenses	(\$7,106,120)
Management	(\$1,192,188)
Taxes	(\$2,842,448)
Insurance	(\$1,421,224)
<b>TOTAL</b>	<b>(\$12,561,980)</b>
<b>NOI</b>	<b>\$27,177,621</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 25: ENHANCED COMMERCIAL CONSTRUCTION COSTS – PHASE 1

Construction Cost	Office	Retail
Hard Costs	\$402,148,956	\$116,265,873
Soft Costs	\$60,322,343	\$17,439,881
Contingency	\$3,016,117	\$871,994
Dev Fee	\$23,274,371	\$6,728,887
Financing Expenses	\$32,171,916	\$9,301,270
<b>TOTAL</b>	<b>\$520,933,703</b>	<b>\$150,607,905</b>
Land Cost	\$9,912,591	
<b>TOTAL Cost</b>	<b>\$681,454,199</b>	

Current cap rates for office in Salt Lake City are around 7.0 percent making office development not feasible under current market conditions. High vacancy rates are keeping rents low which have been outpaced by rising construction costs. Retail development is doing somewhat better than office development with cap rates generally ranging between 5.5 percent to 6.5 percent. While retail development is occurring in Salt Lake under market conditions, it is grouped with office in the analysis below, thereby making it appear more unfavorable than is the actual case under current market conditions.

TABLE 26: ENHANCED COMMERCIAL PROFIT ON COST PHASE 1

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$681,454,199	\$27,177,621	\$603,947,127	-11.4%
5.00%	\$681,454,199	\$27,177,621	\$543,552,415	-20.2%
5.25%	\$681,454,199	\$27,177,621	\$517,668,966	-24.0%

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
5.50%	\$681,454,199	\$27,177,621	\$494,138,559	-27.5%
6.00%	\$681,454,199	\$27,177,621	\$452,960,345	-33.5%

For the profit on cost shown in Table 26 above for enhanced commercial development to be similar to the profit on cost shown in Table 22 for market-driven commercial development, it would require public assistance in the range of \$230 million for phase 1.

## Valuation Analysis – Commercial Development Phase 2

### Market-Driven Commercial Development Phase 2

Under a market-driven approach, plans are for 1.5 million sf of office space, 114 hotel units and 105,029 sf of retail space.

TABLE 27: MARKET COMMERCIAL DEVELOPMENT PROJECTIONS – PHASE 2

	SF	Rent	Vacancy	Annual Rent before Vacancy	Annual Rent After Vacancies
Office	1,479,260	\$20	10.0%	\$29,585,200	\$26,626,680
Hotel	114	\$275	30.0%	\$11,442,750	\$8,009,925
Retail	105,029	\$35	5.0%	\$3,676,015	\$3,492,214
<b>TOTAL</b>				<b>\$44,703,965</b>	<b>\$38,128,819</b>

The following analysis evaluates office and retail development only.

TABLE 28: MARKET COMMERCIAL NET OPERATING INCOME – PHASE 2

Description	Amount
<b>Revenues</b>	
Rent After Vacancy less Hotel	\$30,118,894
Reimbursements	\$5,000,000
<b>TOTAL</b>	<b>\$35,118,894</b>
<b>Operating Expenses</b>	
Operating Expenses	(\$7,921,445)
Management	(\$1,053,567)
Taxes	(\$3,168,578)
Insurance	(\$1,584,289)
<b>TOTAL</b>	<b>(\$13,727,879)</b>
<b>NOI</b>	<b>\$21,391,015</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 29: MARKET COMMERCIAL CONSTRUCTION COSTS – PHASE 2

Construction Cost	Office	Retail
Hard Costs	\$342,586,615	\$24,324,082
Soft Costs	\$51,387,992	\$3,648,612
Contingency	\$2,569,400	\$182,431
Dev Fee	\$19,827,200	\$1,407,756
Financing Expenses	\$27,406,929	\$1,945,927
<b>TOTAL</b>	<b>\$443,778,136</b>	<b>\$31,508,808</b>
<b>Office and Retail</b>		
Land Cost	\$17,723,334	
<b>TOTAL Cost</b>	<b>\$493,010,278</b>	

Current cap rates for office in Salt Lake City are around 7.0 percent making office development not feasible under current market conditions. High vacancy rates are keeping rents low which have been outpaced by rising construction costs. Retail development is doing somewhat better than office development with cap rates generally ranging between 5.5 percent to 6.5 percent. While retail development is occurring in Salt Lake under market conditions, it is grouped with office in the analysis below, thereby making it appear more unfavorable than is the actual case under current market conditions.

TABLE 30: MARKET-DRIVEN COMMERCIAL PROFIT ON COST PHASE 2

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$493,010,278	\$21,391,015	\$475,355,898	-3.6%
5.00%	\$493,010,278	\$21,391,015	\$427,820,308	-13.2%
5.25%	\$493,010,278	\$21,391,015	\$407,447,913	-17.4%
5.50%	\$493,010,278	\$21,391,015	\$388,927,553	-21.1%
6.00%	\$493,010,278	\$21,391,015	\$356,516,924	-27.7%

### Enhanced Commercial Development Phase 2

Under an enhanced construction approach, plans are for 2.3 million sf of office space, 175 hotel units and 220,584 sf of retail space.

TABLE 31: ENHANCED COMMERCIAL DEVELOPMENT PROJECTIONS – PHASE 2

	SF	Rent	Vacancy	Annual Rent before Vacancy	Annual Rent After Vacancies
Office	2,275,785	\$20	10.0%	\$45,515,700	\$40,964,130
Hotel	175	\$275	30.0%	\$17,565,625	\$12,295,938
Retail	220,584	\$35	5.0%	\$7,720,440	\$7,334,418
<b>TOTAL</b>				<b>\$70,801,765</b>	<b>\$60,594,486</b>

The following analysis evaluates office and retail development only.

TABLE 32: ENHANCED COMMERCIAL NET OPERATING INCOME – PHASE 2

Description	Amount
<b>Revenues</b>	
Rent After Vacancy less Hotel	\$48,298,548
Reimbursements	\$8,000,000
<b>TOTAL</b>	<b>\$56,298,548</b>
<b>Operating Expenses</b>	
Operating Expenses	(\$12,481,845)
Management	(\$1,688,956)
Taxes	(\$4,992,738)
Insurance	(\$2,496,369)
<b>TOTAL</b>	<b>(\$21,659,908)</b>
<b>NOI</b>	<b>\$34,638,640</b>

Construction costs were provided by the Applicant and appear reasonable in today's market.

TABLE 33: ENHANCED COMMERCIAL CONSTRUCTION COSTS – PHASE 2

Construction Cost	Office	Retail
Hard Costs	\$899,509,470	\$63,516,507
Soft Costs	\$134,926,421	\$9,527,476
Contingency	\$6,746,321	\$476,324
Dev Fee	\$52,059,111	\$3,676,018
Financing Expenses	\$71,960,758	\$5,081,321
<b>TOTAL</b>	<b>\$1,165,202,081</b>	<b>\$82,277,646</b>
<b>Office and Retail</b>		
Land Cost	\$17,723,334	
<b>TOTAL Cost</b>	<b>\$1,265,203,061</b>	

Current cap rates for office in Salt Lake City are around 7.0 percent making office development not feasible under current market conditions. High vacancy rates are keeping rents low which have been outpaced by rising construction costs. Retail development is doing somewhat better than office development with cap rates generally ranging between 5.5 percent to 6.5 percent. While retail development is occurring in Salt Lake under market conditions, it is grouped with office in the analysis below, thereby making it appear more unfavorable than is the actual case under current market conditions.

TABLE 34: ENHANCED COMMERCIAL PROFIT ON COST PHASE 2

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
4.50%	\$1,265,203,061	\$34,638,640	\$769,747,546	-39.2%
5.00%	\$1,265,203,061	\$34,638,640	\$692,772,791	-45.2%
5.25%	\$1,265,203,061	\$34,638,640	\$659,783,611	-47.9%

CAP Rates	Construction Cost	NOI	Market Value	Profit on Cost
5.50%	\$1,265,203,061	\$34,638,640	\$629,793,447	-50.2%
6.00%	\$1,265,203,061	\$34,638,640	\$577,310,659	-54.4%

**For the profit on cost shown in Table 34 above for enhanced commercial development to be similar to the profit on cost shown in Table 30 for market-driven commercial development, it would require public assistance in the range of \$500 million for phase 2.**

## Secondary Gap Analysis Approach

Table 35 shows the added construction costs on a per unit basis for residential development and on a per square foot basis for nonresidential development. The difference in cost per unit is multiplied by the total number of units anticipated with enhanced development. Using this approach results in a gap of \$1.08 billion for the enhanced construction costs. This is similar to the valuation approach above, summarized in Table 2, which shows a total gap of \$1.02 billion for enhanced construction costs alone (not including the gaps for other improvements). The valuation approach is more detailed and takes into account differences in rents and operating costs. However, it is validating to see similar results with the two approaches.

TABLE 35: CONSTRUCTION COST DIFFERENTIAL

# of Units/SF	Average HTRZ \$/SF	Market Driven \$/SF	Total Construction Cost Differential
Residential Unit	5,793	\$408,821	\$350,000
Office Space (SF)	3,293,234	\$512	\$300
Commercial	565,358	\$373	\$300
<b>Total</b>			<b>\$1,084,493,868</b>