

HTRZ Proposal Review

Governor's Office of Economic Opportunity
South Jordan HTRZ Review
February 2023



ZIONS PUBLIC FINANCE, INC.

REVIEW OF SOUTH JORDAN STATION HTRZ PROPOSAL

This independent review of the proposed South Jordan Station HTRZ by Zions Public Finance, Inc. (ZPFI) is prepared in accordance with Utah Code 63N-3-604(3)(b) which requires a gap analysis that includes the following elements:

- (i) A description of the planned development;
- (ii) A market analysis relative to other comparable project developments included in or adjacent to the municipality or public transit county absent the proposed housing and transit reinvestment zone;
- (iii) An evaluation of the proposal to and a determination of the adequacy and efficiency of the proposal;
- (iv) An evaluation of the proposed increment capture needed to cover the enhanced development costs associated with the housing and transit reinvestment zone proposal and enable the proposed development to occur; and
- (v) Based on the market analysis and other findings, an opinion relative to the minimum amount of potential public financing reasonably determined to be necessary to achieve the objectives described in Subsection 63N-3-603(1).

Description of the Planned Development

The planned development is for a mixed use development that includes the following:

- 4,462 multifamily units
- 262 townhome units
- 1,499,400 office sf
- 286,000 retail sf
- 289 hotel keys
- 500 of the residential units will be affordable (10.6%)



FIGURE 1: PROPOSED HTRZ DEVELOPMENT

The HTRZ is planned on 107 acres in the 290-acre downtown Daybreak master-planned community with parcel 2624178003 (25.83 acres) bisecting the ½-mile radius boundary and therefore qualifying to be included in the HTRZ in its entirety.

Market Analysis Relative to Other Comparable Project Developments Included in or Adjacent to the Municipality or Public Transit County Absent the Proposed Housing and Transit Reinvestment Zone

The Proposal includes the following comparative developments.

No.	Name	Address	Property Information					Project Average				
			Style	Acre	Stories	Built	% Occ.	Units	Unit Size	Base Rent		
									\$	\$/sf		
1*	Point of View Apartments	186 E Future Way Draper	Mid-Rise	34	4	2021	87%	328	840	\$1,636	\$1.95	
2	VIDA at Daybreak	11321 South Grandville South Jordan	Garden	39	3	2020	98%	243	870	\$1,668	\$1.92	
3	ICO Vista Station	13152 S Vista Station Blvd Draper	Mid-Rise	68	4	2020	93%	308	875	\$1,619	\$1.85	
4	Anthology	277 W 13490 S Draper	Mid-Rise	35	4	2020	95%	242	890	\$1,650	\$1.85	
5	Rockpoint Apartments	15300 S Porter Rockwell Blvd Bluffdale	Mid-Rise	25	4	2019	96%	251	899	\$1,730	\$1.92	
6	Odessa at the District	11743 S District View Dr South Jordan	Mid-Rise	57	4	2019	98%	120	850	\$1,514	\$1.78	
7	Aspira at Anthem	5341 W Anthem Park Blvd Herriman	Garden	25	3	2019	95%	342	989	\$1,556	\$1.57	
8	Jordan Station Apartments	10542 S Jordan Gtwy South Jordan	Mid-Rise	70	4	2015	99%	539	842	\$1,516	\$1.80	
9	San Tropez Apartments	11747 S Siracus Dr South Jordan	Garden	28	3	2015	95%	334	1,105	\$1,923	\$1.74	
10	ICO District	11100 S River Heights Dr South Jordan	Garden	23	3	2014	93%	258	1,024	\$1,732	\$1.69	
STATISTICS												
	Low			23	3	2014	87%	120	840	\$1,514	\$1.57	
	High			70	4	2021	99%	539	1,105	\$1,923	\$1.95	
	Weighted Avg.			35	4	2018	96%	297	919	\$1,651	\$1.80	

FIGURE 2: COMPARATIVE APARTMENT RENTS FROM APPLICATION

According to CBRE’s Greater Salt Lake Area Multi-Family Housing Report 2022 Review / 2023 Outlook, the average rent in 2022 was \$1,573 per month. This study uses an average of \$1.80 per square foot (provided by Applicant and reviewed by ZPFI) with an average unit size of 918 square feet, resulting in an average monthly rent of \$1,652. The rent used in the analysis should be higher than CBRE’s average as CBRE takes into account older, as well as newer, properties.

As a means of verification, ZPFI researched additional newer apartment properties available for rent. Although many of the properties listed in the table below have a higher rent than \$1.80 per sf, when comparing the larger-size units (more similar to the 918 average square feet size in the Proposal), the rents appear to be more in the range of the \$1.80 used in the analysis.

TABLE 1: COMPARATIVE APARTMENT RENTS

	Rent per Month	SF	Rent per SF
Novel Daybreak	\$1,595	600	\$2.66
	\$1,696	807	\$2.10
Jordan Station	\$1,429	855	\$1.67
	\$1,469	727	\$2.02

	Rent per Month	SF	Rent per SF
	\$1,469	855	\$1.72
	\$1,549	910	\$1.70
The PEARL at Daybreak	\$1,595	600	\$2.66
	\$1,495	600	\$2.49
	\$1,535	525	\$2.92
	\$1,820	817	\$2.23
	\$1,985	1,024	\$1.94
VIDA at Daybreak	\$1,769	1,000	\$1.77
	\$1,687	1,008	\$1.67
	\$1,787	1,008	\$1.77
	\$1,991	1,265	\$1.57

CBRE provides additional information regarding multi-family rents on a square foot basis for suburban areas of the greater Salt Lake area.

TABLE 2: GREATER SALT LAKE AREA COMPARATIVE RENTS BY APARTMENT TYPE

Suburban Rental Rate Comparison - Class A	Rent	\$/SF
Studio	\$1,329	\$2.24
1 Bed 1 Bath	\$1,511	\$2.00
2 Bed 1 Bath	\$1,622	\$1.63
2 Bed 2 Bath	\$1,835	\$1.73
3 Bed 2 Bath	\$2,161	\$1.61
Overall	\$1,781	\$1.79

Source: CBRE Greater Salt Lake Area Multi-Family Market Report 2022 Review/2023 Outlook

According to CBRE, the apartment market is extremely healthy at the present time, with an average vacancy rate of 3.1 percent in the Salt Lake Valley and cap rates ranging between 4.0 and 4.25 percent.

The office market is not doing nearly as well as the multi-family market. According to Cushman & Wakefield’s Office Market Report Q4 2022, Salt Lake County had a vacancy rate of 19.3 percent, with negative absorption of 349,000 square feet last year. When considering only the southwest quadrant of the Salt Lake Valley, the vacancy rate increases to 26.8 percent with an average asking rent of \$26.60. The Applicant uses an office rent rate of \$30.00 per leasable square foot and a vacancy rate of 7 percent, which serves to project more profitability (i.e., less of a gap) than if using market averages.

An Evaluation of the Proposal to and a Determination of the Adequacy and Efficiency of the Proposal

This section evaluates whether or not the Proposal has met all of the requirements of Utah Code 63N-3-604(a) which requires the following elements:

- (i) Demonstrates that the proposed housing and transit reinvestment zone will meet the objectives described in Subsection 63N-3-603(1);

- (ii) Explains how the municipality or public transit county will achieve the requirements of Subsection 63N-3-603(2)(a);
- (iii) Defines the specific transportation infrastructure needs, if any, and proposed improvements;
- (iv) Defines the boundaries of:
 - a. The housing and transit reinvestment zone; and
 - b. The sales and use tax boundary corresponding to the housing and transit reinvestment zone boundary, as described in Section 63N-3-610;
- (v) Identifies any development impediments that prevent the development from being a market-rate investment and proposed strategies for addressing each one;
- (vi) Describes the proposed development plan, including the requirements described in Subsections 63N-3-603(2) and (4);
- (vii) Establishes a base year and collection period to calculate the tax increment within the housing and transit reinvestment zone;
- (viii) Establishes a sales and use tax base year to calculate the sales and use tax increment within the housing and transit reinvestment zone;
- (ix) Describes projected maximum revenues generated and the amount of tax increment capture from each taxing entity and proposed expenditures of revenue derived from the housing and transit reinvestment zone;
- (x) Includes an analysis of other applicable or eligible incentives, grants, or sources of revenue that can be used to reduce the finance gap;
- (xi) Evaluates possible benefits to active and public transportation availability and impacts on air quality;
- (xii) Proposes a finance schedule to align expected revenue with required financing costs and payments; and
- (xiii) Provides a pro-forma for the planned development including the cost differential between surface parked multi-family development and enhanced development that satisfies the requirements described in Subsections 63N-3-603(2), (3) and (4)

The following section briefly summarizes how the Proposal has adequately responded to each of these elements as required by law and finds that it has successfully covered these key criteria in detail. The Application provides a detailed explanation and a clear summary for each factor.

(i) ***Demonstrates that the proposed housing and transit reinvestment zone will meet the objectives described in Subsection 63N-3-603(1)***

(a) Higher utilization of public transit:

The Proposal includes a 4-pronged approach to ensure higher utilization of public transit including Central Station Design, transit-oriented development with connectivity to three TRAX stations, connectivity with a regional trail system and commuter parking (Park and Ride).

(b) Increasing availability of housing, including affordable housing;

The Proposal includes 4,724 residential units of which 500 (10.6%) will be affordable. Affordability is generally calculated as 80% of AMI; however, this Proposal includes plans for 30% of the units reserved for 60% and 70% of AMI.

(c) Conservation of water resources through efficient land use;

The Proposal anticipates 40 percent reduced water usage through reduction of blacktop surfaces, less landscape watering and integrated trails.

(d) Improving air quality by reducing fuel consumption and motor vehicle trips;

Through the construction of 1.5 million sf of office space, the Proposal anticipates shorter commutes for residents thereby capturing 30 percent of generated trips, reducing emissions and congestion, and improving air quality.

(e) Encouraging transformative mixed-use development and investment in transportation and public infrastructure in strategic areas;

The Proposal includes residential, office, retail and lodging development in order to make an attractive and fully functioning community. Further, the proposed HTRZ will be part of the larger, award-winning and transformative mixed-use Daybreak development and is located between two existing TRAX stations, as well as surrounding a third planned Central Station.

(f) Strategic land use planning in major land use investment corridors;

This development is strategically located between two existing, and a planned third, light rail station. The map shows the site’s strategic access to key destinations along the Wasatch Front.

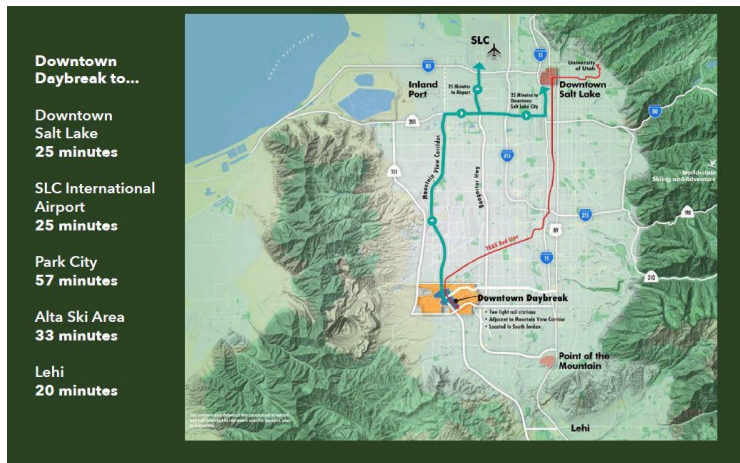


FIGURE 3: STRATEGIC LOCATION

(g) Increasing access to employment and educational opportunities;

The Proposal anticipates 9,000 jobs in the HTRZ of which 7,000 would be office jobs. The focus of the Applicant for development of this area is for a regionally significant employment center. In terms of educational opportunities, the Proposal references a 90-acre land bank held by the University of Utah at the North Station; and at the South Station – county library, VA hospital, a U of U medical center campus and a future performing arts center

(h) Increasing access to childcare.

While the Proposal does not directly address access to childcare, the proximity of educational and employment opportunities likely also offer access to childcare.

(ii) Explains how the municipality or public transit county will achieve the requirements of Subsection 63N-3-603(2)(a);

The Proposal states that the development will include 500 affordable housing units (10.6 percent of the 4,724 residential units). This meets the requirement for 10 percent affordability. This results in an average density per acre of 64.71 residential units on the 73 residential acres of the HTRZ (4,724 residential units / 73 acres).

(iii) Defines the specific transportation infrastructure needs, if any, and proposed improvements;

The Proposal describes how the HTRZ will take advantage of the existing North and South TRAX stations on the Red Line and will also provide increased density around the planned Central Station.

- (iv) **Defines the boundaries of:**
 - a. **The housing and transit reinvestment zone; and**
 - b. **The sales and use tax boundary corresponding to the housing and transit reinvestment zone boundary, as described in Section 63N-3-610;**

The Proposal clearly sets forth the boundaries, as well as listing the 10 parcels proposed to be included in the HTRZ.



FIGURE 4: HTRZ PROPOSED BOUNDARIES

- (v) **Identifies any development impediments that prevent the development from being a market-rate investment and proposed strategies for addressing each one;**

The Proposal identifies two market impediments to the planned development being a market rate investment including:

- 1) increased costs of construction for building structures greater than four stories; and
- 2) the cost of structured parking.

The Proposal states that current market rents, combined with significantly escalated costs, make it impossible to meet the HTRZ statute objectives (63N-3-603(1)) absent HTRZ participation. The Proposal also identifies the added costs from affordable housing.

- (vi) **Describes the proposed development plan, including the requirements described in Subsections 63N-3-603(2) and (4);**

The following specific requirements are included:

- **At least 10% of the proposed dwelling units within the housing and transit reinvestment zone are affordable housing units;**
The proposal states that there will be 500 affordable units in this development which represents 10.6 percent of all residential units. The total number of residential units is projected at 4,724.
- **At least 51% of the developable area within the housing and transit reinvestment zone includes residential uses with, except as provided in Subsection (4)(c), an average of 50 dwelling units per acre or greater;**
73 acres, of the 107 total acres, are planned for residential uses, representing 68 percent of the total land area. With plans for 4,724 residential units, the average density on the residential acres is 64.7 percent.
- **Mixed-use development**
Plans are clearly for a mix of residential, retail, lodging and office use.

- *Mix of dwelling units to ensure that a reasonable percentage of the dwelling units has more than one bedroom*

The Proposal uses a sample of 250 residential units, broken out as follows which suggests that 40 percent of units will have two or more bedrooms.

TABLE 3: PERCENT OF BEDROOMS BY TYPE

Unit Type	# of Bedrooms	% of Total
Studio	38	15%
1-Bdrm	113	45%
2-Bdrm	89	36%
3-Bdrm	10	4%
Total	250	100%

- *Is within a 1/2-mile radius*
Based on Utah Code (63N-3-603(4)(b)(III)), the proposed HTRZ may extend for a ½-mile radius because it is located in a master-planned community (Daybreak) of 500 acres or more.

Utah Code 63N-3-603(5)(b) states that for a housing and transit reinvestment zone for a light rail station, if a parcel is bisected by the relevant radius limitation, the full parcel may be included as part of the housing and transit reinvestment zone area and will not count against the limitations described in Subsection (4)(b)(i). Parcel 2624178003 is bisected by the ½-mile radius and therefore the entirety of the parcel may be included in the HTRZ and does not count against the 100-acre limitation.

- (vii) ***Establishes a base year and collection period to calculate the tax increment within the housing and transit reinvestment zone;***

The Proposal identifies 2026 as the beginning year for increment collection and identifies a 30-year period from that point in time, with individual parcels contributing increment for 15 years each from the time of development.

- (viii) ***Establishes a sales and use tax base year to calculate the sales and use tax increment within the housing and transit reinvestment zone;***

Page 32 of the Proposal includes the sales tax projections. The consultants have reviewed and the projections are reasonable.

- (ix) ***Describes projected maximum revenues generated and the amount of tax increment capture from each taxing entity and proposed expenditures of revenue derived from the housing and transit reinvestment zone;***

In the Appendix, the Proposal shows the amount of tax increment generated by each taxing entity. Tax increment calculations have also been performed by ZPFI and included in Appendix A and are in agreement with the projections made in the Proposal. In terms of expenditures, the Proposal includes the additional costs of construction and parking for which tax increment funds will be used.

- (x) ***Includes an analysis of other applicable or eligible incentives, grants, or sources of revenue that can be used to reduce the finance gap;***
The tax increment likely to be generated is insufficient to fill the gap between enhanced and market-driven development. While the proposal does not reference other sources such as grants, etc., the developer will need to find ways to fund the remaining gap.
- (xi) ***Evaluates possible benefits to active and public transportation availability and impacts on air quality;***
The Proposal states that the HTRZ will capture 30 percent of auto-generated trips, thus reducing vehicle emissions and improving air quality.
- (xii) ***Proposes a finance schedule to align expected revenue with required financing costs and payments; and***
The Proposal includes a pro forma with projected revenues by year. Financing costs are also included although there is no timing schedule for the financing costs.
- (xiii) ***Provides a pro-forma for the planned development including the cost differential between surface parked multi-family development and enhanced development that satisfies the requirements described in Subsections 63N-3-603(2), (3) and (4)***
The Applicant has provided a pro forma which includes a comparison of surface parked, market driven multi-family development and the enhanced, higher-density development that can be achieved with a HTRZ. The pro formas included are for sample portions of the multi-family development (250 units) and office development (100,000 leasable sf).

An Evaluation of the Proposed Increment Capture Needed to Cover the Enhanced Development Costs Associated with the Housing and Transit Reinvestment Zone Proposal and Enable the Proposed Development to Occur

This section discusses added costs to the developer from two components:

- 1) Increased costs of construction
 - Type IIIA (podium) residential construction with structured parking
 - Type V Wrap residential construction with structured parking
 - Class A office construction with structured parking
- 2) Lost revenues and valuation from 500 affordable housing units

Construction Costs

Research from various construction companies active in the Salt Lake Valley suggest that costs for construction vary considerably depending on the site. That said, companies interviewed suggest that **Type V regular construction** averages about \$254,000 - \$267,000 per unit not including land. The analysis provided by the Applicant averaged \$252,143 per unit, not including land. This is highly comparable to our research and suggests that the information provided for the baseline comparison is reasonable given current market conditions. The question then becomes, compared to the baseline occurring naturally under market conditions, what is the gap that is incurred for Type V Wrap construction with structured parking and Type IIIA construction with structured parking?

Interviews with local construction companies suggests that **Type V Wrap construction** with structured parking averages \$260 to \$320 per leasable square foot not including land and parking. This study uses \$306.36 per square foot based on information provided by the Applicant. While that may appear somewhat on the higher side of the range, construction companies estimated parking costs at between \$25,000 and \$35,000 per stall. The Applicant uses \$25,000 – the lower end of the range in this case.

Interviews suggest that type IIIA construction costs vary considerably, ranging from \$325 to \$450 per square foot, not including land or parking. Parking costs were estimated at \$35,000 per stall by construction companies. The Applicant used costs of \$363 per square foot and parking costs of \$25,000 per stall.

For office construction costs, the Applicant used a cost of \$385 per square foot, not including land. Office construction costs vary widely based on building type, finish and amenities. Based on our research, the information provided was a range of \$300 to \$500 per square foot, including parking, but not including land. The Applicant's estimate is within this range.

The following sections first analyze multi-family market-driven (Type V) construction in comparison to enhanced Type V Wrap construction and Type III A construction. The multi-family analysis is followed by an analysis of Class A office construction.

Multi-Family Type 5 Construction (Typical)

Type 5 construction (typical) assumes 4-story wood frame construction with surface parking and a density of 35 units per acre.

TABLE 4: ASSUMPTIONS FOR TYPE 5 CONSTRUCTION

Assumption	Amount
Units per Acre	35
Total Units	250
Average Unit Size	918
Average Rent Per Month/SF	\$1.80
Stabilized Vacancy	5%
Leasable SF	229,500
Construction Costs per Leasable SF	\$279
Parking Costs per Stall	\$3,200
Land Costs per Building Leasable SF	\$16.34

Using the assumptions above, effective gross income (EGI) is first calculated.

TABLE 5: EFFECTIVE GROSS INCOME (EGI) CALCULATION – TYPE 5 CONSTRUCTION

Multi-Family	Number of Units	Average Unit Size	Rent/Cost per Unit	Annual
Multi-Family Unit	250	918	\$1,652	\$4,957,200
Other Income (storage, late fees, etc.)			\$275.00	\$825,000
Potential Gross Income (PGI)				\$5,782,200

Multi-Family	Number of Units	Average Unit Size	Rent/Cost per Unit	Annual
Less Stabilized Vacancy			5%	(\$289,110)
Effective Gross Income (EGI)				\$5,493,090

The next step is to evaluate operating expenses in order to arrive at the net operating income (NOI). NOI is an extremely important number as it is used to calculate valuation of the property.

TABLE 6: CALCULATION OF NET OPERATING INCOME – TYPE 5 CONSTRUCTION

	% of EGI	Per Unit/Year	Total
Management	3%		(\$164,793)
Reserves	1%		(\$54,931)
Utilities		\$1,500	(\$375,000)
Maintenance & Repair		\$1,200	(\$300,000)
Admin		\$815	(\$203,750)
Property Taxes		\$1,732	(\$433,000)
Insurance		\$500	(\$125,000)
Total Operating Expenses			(\$1,656,474)
Net Operating Income (NOI)			\$3,836,616

The construction costs are calculated based on information provided in the Proposal, as well as from interviews with local construction companies.

TABLE 7: CONSTRUCTION COSTS – TYPE 5 CONSTRUCTION

	Cost
Construction Costs – per Leasable Building SF	\$279
Parking Cost per Stall – Surface Parking	\$3,200
Land Costs per Acre	\$525,000

Construction costs are then compared to net operating income in order to evaluate the relative profitability of a project given different CAP rates. CAP rates are a measure of the rate of return that a property is expected to generate based on the income that a property is expected to produce currently. The CAP rate is a function of net operating income (NOI) divided by total construction costs (or market value for projects previously built). In today's market, CAP rates are currently very low for multifamily units indicating optimistic conditions where buyers expect future appreciation of rents and properties to occur and are therefore willing to accept lower CAP rates (i.e., a lower NOI compared to market value) at the time of purchase.

A range of CAP rates has been provided in the valuation analysis below. Revenues and expenses are constant throughout the analysis. As can be seen in the last column, the returns on apartment complexes of 4 stories or less are good in today's market. No incentives are needed for wood frame construction with standalone/surface parking. While the Applicant is not seeking any reimbursement for Type V standard construction, the purpose of analyzing Type 5 (standard) construction is to compare it with Type V Wrap construction and Type 3A construction. It is interesting to note that profit margins for Type V standard

multifamily units have been falling in recent months as construction costs and interest rates have been rising.

TABLE 8: VALUATION ANALYSIS – TYPE 5 CONSTRUCTION

Capitalization Rate	Value	Per Gross SF	Value Spread with Costs/SF	Profit %
4.0%	\$95,915,410	\$363	\$62	20.6%
4.25%	\$90,273,327	\$342	\$41	13.5%
4.5%	\$85,258,142	\$323	\$22	7.2%
5.0%	\$76,732,328	\$291	(\$11)	(3.6%)

Type V Wrap Construction (Structured Parking)

With Type V Wrap construction (enclosed parking), costs are anticipated to reach \$350 per square foot, including parking.¹ This is \$64.82 higher per square foot than the \$285.12 per square foot cost for building and parking (not including land) for Type V construction or the equivalent added cost of \$59,504 per unit for construction costs. However, with higher density, there would be some savings in terms of land costs per unit, but the savings of approximately \$4,500 per unit is not sufficient to offset the added construction costs.² As the table below shows, this would be a losing proposition for a developer without some sort of public assistance.

TABLE 9: VALUATION ANALYSIS – TYPE V WRAP CONSTRUCTION

Capitalization Rate	Value	Per Gross SF	Value Spread with Costs/SF	Profit %
4.0%	\$95,915,410	\$363	\$2	0.6%
4.25%	\$90,273,327	\$342	(\$19)	(5.3%)
4.5%	\$85,258,142	\$323	(\$38)	(10.6%)
5.0%	\$76,732,328	\$291	(\$71)	(19.5%)

How much public assistance is needed to encourage Type V Wrap development? Our analysis suggests that an incentive of approximately \$55,004 per unit would level the playing field with returns from market-driven Type V construction. The \$55,004 was calculated by multiplying the difference in building costs of \$64.82 per leasable square foot by the 918 average square feet of each unit, less the land cost savings of \$4.90 per square foot per unit. Note that the valuation analyses for multi-family units are for 250 units and not the total amount of planned multi-family development. This is based on how the pro forma was provided in the Application.

¹ This is on a leasable square foot basis, not gross square feet, and includes all finishes, amenities and development fees.

² The Applicant provides a cost of \$525,000 per acre for land. At a density of 35 units per acre, this results in a land cost of \$15,000 per unit. However, at a density of 50 units per acre, the land cost per unit is reduced to \$10,500 per acre.

TABLE 10: VALUATION ANALYSIS – TYPE V WRAP CONSTRUCTION WITH INCENTIVES

Capitalization Rate	Value	Per Unit	Per SF	Value Spread with Costs/per Unit	Value Spread with Costs/SF	Profit %
4.0%	\$95,915,410	\$383,662	\$363	\$106,926	\$62	20.6%
4.25%	\$90,273,327	\$361,093	\$342	\$84,357	\$41	13.5%
4.5%	\$85,258,142	\$341,033	\$323	\$64,297	\$22	7.2%
5.0%	\$76,732,328	\$306,929	\$291	\$30,193	(\$11)	(3.6%)

Type IIIA Podium Construction (Structured Parking)

With Type IIIA Podium construction, costs are anticipated to reach \$406 per square foot, including parking.³ This is \$121.07 higher than the \$285.12 per square foot cost for building and parking (not including land) for Type V construction or the equivalent added cost of \$111,144 per unit. Land costs are additional. As the table below shows, this would be a losing proposition for a developer without some sort of public assistance.

TABLE 11: VALUATION ANALYSIS – TYPE IIIA CONSTRUCTION

Capitalization Rate	Value	Per Unit	Per SF	Value Spread with Costs/per Unit	Value Spread with Costs/SF	Profit %
4.0%	\$95,915,410	\$383,662	\$363	\$383,662	(\$51)	(12.3%)
4.25%	\$90,273,327	\$361,093	\$342	\$361,093	(\$72)	(17.5%)
4.5%	\$85,258,142	\$341,033	\$323	\$341,033	(\$91)	(22.0%)
5.0%	\$76,732,328	\$306,929	\$291	\$306,929	(\$124)	(29.8%)

How much public assistance is needed to encourage Type IIIA development? Our analysis suggests that an incentive of approximately \$103,644 per unit would level the playing field with returns from market-driven Type V construction. The \$103,644 was calculated by multiplying the difference in building costs of \$121.07 per square foot by the 918 average square feet of each unit, less the land cost savings of \$8.17 per square foot per unit (\$7,500 per unit). Note that the valuation analyses for multi-family units are for 250 units and not the total amount of planned multi-family development. This is based on how the pro forma was provided in the Application.

TABLE 12: VALUATION ANALYSIS – TYPE IIIA PODIUM CONSTRUCTION WITH INCENTIVES

Capitalization Rate	Value	Per Unit	Per SF	Value Spread with Costs/per Unit	Value Spread with Costs/SF	Profit %
4.0%	\$95,915,410	\$383,662	\$363	\$383,662	\$62	20.6%
4.25%	\$90,273,327	\$361,093	\$342	\$361,093	\$41	13.5%
4.5%	\$85,258,142	\$341,033	\$323	\$341,033	\$22	7.2%

³ This is on a leasable square foot basis, not gross square feet, and includes all finishes, amenities and development fees.

Capitalization Rate	Value	Per Unit	Per SF	Value Spread with Costs/per Unit	Value Spread with Costs/SF	Profit %
5.0%	\$76,732,328	\$306,929	\$291	\$306,929	(\$11)	(3.6%)

Office Construction (Market Driven)

The current office market is struggling in Salt Lake County. Even market-driven office development is not attractive at the present time. The assumptions in the table below are the same for all office construction. Only construction costs, shown in a later table, differ. Office rents presented in the Application are somewhat higher than those researched in this study but are within the range for new Class A office construction with a high level of amenities and finishes.

TABLE 13: ASSUMPTIONS FOR OFFICE CONSTRUCTION

Description	Amount
Rentable Square Feet	100,000
Rent per SF, NNN	\$30.00
Expense Reimbursements per SF	\$0.50
Stabilized Vacancy Rate	7%
Management % of EGI	3%
Reserves % of EGI	1%
Operating Expense per SF	\$7.00

Using the assumptions above, effective gross income (EGI) is first calculated and then operating expenses subtracted in order to arrive at net operating income (NOI).

TABLE 14: EFFECTIVE GROSS INCOME (EGI) CALCULATION – OFFICE CONSTRUCTION OF 100,000 LEASABLE SF (120,000 GROSS)

Rental Income	\$3,000,000
Expense Reimbursements	\$50,000
Potential Gross Income	\$3,050,000
Less: Stabilized Vacancy	(\$213,500)
Effective Gross Income (EGI)	\$2,836,500
Less: Operating Expenses	
Management	(\$85,095)
Reserves	(\$28,365)
Operating Expense	(\$700,000)
Net Operating Income (NOI)	\$2,023,040

The construction costs are calculated based on information provided in the Proposal, as well as from interviews with local construction companies.

TABLE 15: CONSTRUCTION COSTS – OFFICE MARKET AND OFFICE ENHANCED

Office Cost Comparison	Market-Driven	Enhanced
Construction Costs per Leasable SF	\$271	\$280
Parking Costs per Stall	\$3,200	\$25,000
Land Costs per Leasable Building SF	\$24	\$12

Construction costs are then compared to net operating income in order to evaluate the relative profitability of a project given different CAP rates. CAP rates are a measure of the rate of return that a property is expected to generate based on the income that a property is expected to produce currently. The CAP rate is a function of net operating income (NOI) divided by total construction costs (or market value for projects previously built). CAP rates for office construction vary widely depending on a variety of risk factors including type of tenants, number of tenants, age of building, location, rising interest rates, etc. Based on information provided by LoopNet, the average CAP rate for office space in South Jordan is 5.6 percent although somewhat higher in other parts of the Salt Lake Valley. Interviews suggest CAP rates in the neighborhood of 6.5 percent overall.

A range of CAP rates has been provided in the valuation analysis below for market driven office construction. Revenues and operating expenses are constant throughout the analysis for both market driven and enhanced office development. As the following table demonstrates, office development is not as attractive to developers as is multi-family development. This is especially true given the current uncertainty in the office market regarding post-COVID work patterns and high vacancy rates.

TABLE 16: VALUATION ANALYSIS – MARKET DRIVEN OFFICE DEVELOPMENT

Capitalization Rate	Potential Value	Potential Costs	Spread	Profit % of Costs
6.0%	\$33,717,333	\$30,820,000	\$2,897,333	9.4%
6.5%	\$31,123,692	\$30,820,000	\$303,692	1.0%
7.0%	\$28,900,571	\$30,820,000	-\$1,919,429	-6.2%

The market-driven scenario is then compared to enhanced office development, with structured parking. With no incentives, this type of development is not feasible in today's market.

TABLE 17: VALUATION ANALYSIS – ENHANCED WITHOUT INCENTIVES

Capitalization Rate	Potential Value	Potential Costs	Spread	Profit % of Costs
6.0%	\$33,717,333	\$39,700,000	(\$5,982,667)	(15.1%)
6.5%	\$31,123,692	\$39,700,000	(\$8,576,308)	(21.6%)
7.0%	\$28,900,571	\$39,700,000	(\$10,799,429)	(27.2%)

Overall construction costs for market-driven office development are \$308.20 per leasable square foot compared to \$397 for enhanced office development (cost of structured parking) – a difference of \$88.80 per square foot. This is the amount proposed in the Application for public assistance.

Affordable Housing Units

In addition, the developer would need to be incentivized to build affordable housing units throughout the project – for any type of construction. This is because the developer receives lower rents for affordable units as compared to market rents and incurs additional costs for administration and bookkeeping.

Based on HUD guidelines, a household should not spend more than 30 percent of total household income on housing costs, including utilities.

TABLE 18: HUD INCOME GUIDELINES AND AFFORDABLE RENTS

	2-person HH	3-person HH
80% of AMI	\$65,550	\$73,750
Affordable Rent Less Utilities	\$1,240	\$1,423
Monthly Rental Loss	\$412	\$229
70% of AMI	\$57,356	\$64,531
Affordable Rent Less Utilities	\$1,057	\$1,217
Monthly Rental Loss	\$595	\$435
60% of AMI	\$49,163	\$55,313
Affordable Rent Less Utilities	\$874	\$1,011
Monthly Rental Loss	\$778	\$641

Source: HUD; ZPFI

These units will likely have 2 or 3 persons per household depending on the mix of units and number of bedrooms. The annual loss in rents, per affordable unit, was calculated by weighting the 2-person and 3-person household sizes, along with the anticipated number of units at 60 percent, 70 percent and 80 percent of AMI. The average rent loss per month was calculated at \$417.75. Taking the net present value of this loss per month, over 20 years, results in a loss in rents of approximately \$77,000 when discounted at five percent; a loss of \$81,600 when discounted at 4.5 percent. This is similar to the \$79,500 gap per unit identified in the Application.

Based on the Market Analysis and Other Findings, an Opinion Relative to the Minimum Amount of Potential Public Financing Reasonably Determined to be Necessary to Achieve the Objectives Described in Subsection 63N-3-603(1)

The Application identifies a total gap of \$512,459,120.

Total units in HTRZ with Type V Wrap (structured parking)	2,150
x TIF Incentive per Unit	\$ 59,760
= Min. Amount of TIF for Development	\$ 128,484,000
Total units in HTRZ with Type IIIA construction	2,000
x TIF Incentive per Unit	\$ 111,400
= Min. Amount of TIF for Development	\$ 222,800,000
Residential Units Inside of HTRZ (all construction types)	4,724
% Affordable	10.6%
Affordable Units	500
x Value Loss per Unit (rounded)	\$ 79,500
= Min. Amount of TIF for Reduced Rents	\$ 39,750,000
Total office square footage in HTRZ with structured parking	1,367,400
x TIF Incentive per square foot	\$ 88.80
= Min. Amount of TIF for Development	\$ 121,425,120
Combined Total	\$ 512,459,120

FIGURE 4: APPLICANT’S GAP SUMMARY

The review of this application by ZPFI finds a very similar gap as summarized in the following table and described in detail in preceding sections of this report.

TABLE 19: SUMMARY OF ZPFI GAP ANALYSIS

Unit Type	Number of Units	GAP per Unit	TOTAL GAP Amount
Type 5 Wrap	2,150	\$55,004.00	\$118,258,600
Type IIIA Podium	2,000	\$103,644.00	\$207,288,000
Office	1,367,400	\$88.80	\$121,425,120
Affordable Housing	500	\$77,062.10	\$38,531,048
TOTAL			\$485,502,768

Total property tax increment generated by this project is estimated at \$325 million over 30 years. If each parcel contributes 80 percent to the HTRZ for a period of 15 years (30-year maximum for project area period), there will be revenues of roughly \$165 million available to fund the gap created by enhanced construction and affordable housing units. Therefore, in order to move forward as proposed, this project would need the entire 80 percent of tax increment for the 30-year period, with a maximum participation of 15 years per parcel as restricted by law.

Inflation Year	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
Project Year	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070
Office Investment Value	\$15,125,000	\$15,125,000	\$15,125,000	\$9,020,000																		
Residential Investment Value																						
Residential Taxable Value																						
Retail Investment Value																						
Hotel Investment Value																						
Entertainment Investment Value																						
TOTAL Investment Value	\$15,125,000	\$15,125,000	\$15,125,000	\$9,020,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL Taxable Value - New per Year	\$15,125,000	\$15,125,000	\$15,125,000	\$9,020,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cumulative Taxable Value	\$1,387,987,681	\$1,403,112,681	\$1,418,237,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681	\$1,427,257,681
Year																						
1																						
1																						
1																						
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2																						
3																						
4																						
5																						
6																						
7																						
8																						
9																						
10	\$71,261,366																					
11	\$64,625,000	\$64,625,000																				
12	\$64,625,000	\$64,625,000	\$64,625,000																			
13	\$64,625,000	\$64,625,000	\$64,625,000	\$64,625,000																		
14	\$63,338,264	\$63,338,264	\$63,338,264	\$63,338,264	\$63,338,264																	
15	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000																
16	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000															
17	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000														
18	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000													
19	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000												
20	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000											
21	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000										
22	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000									
23	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000								
24	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000							
25		\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000						
26			\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000	\$15,125,000					
27				\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000	\$9,020,000				
28					\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
29						\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
30							\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL - for 15 years per parcel	\$479,724,630	\$423,588,264	\$374,088,264	\$318,483,264	\$253,858,264	\$190,520,000	\$175,395,000	\$160,270,000	\$145,145,000	\$130,020,000	\$114,895,000	\$99,770,000	\$84,645,000	\$69,520,000	\$54,395,000	\$39,270,000	\$24,145,000	\$9,020,000				
100% of Incremental Tax Revenues for 30-year period beginning in 2026																						
Salt Lake County	\$1,497,639	\$1,513,959	\$1,530,278	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011	\$1,540,011
Jordan School District	\$5,850,368	\$5,914,120	\$5,977,872	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891	\$6,015,891
State Basic Levy	\$2,292,956	\$2,317,942	\$2,342,929	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830	\$2,357,830
UT Charter School - Jordan	\$140,187	\$141,714	\$143,242	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153	\$144,153
South Jordan City	\$1,998,702	\$2,020,482	\$2,042,262	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251	\$2,055,251
South Sl Valley Mosquito Abatement District	\$12,492	\$12,628	\$12,764	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845	\$12,845
Jordan Valley Water Conservancy	\$442,768	\$447,593	\$452,418	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295	\$455,295
South Valley Sewer District	\$276,210	\$279,219	\$282,229	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024	\$284,024
Salt Lake County Library	\$535,763	\$541,601	\$547,440	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921	\$550,921
Central Utah Water Conservancy District	\$555,195	\$561,245	\$567,295	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903	\$570,903
MultiCounty Assessing & Collecting	\$20,820	\$21,047	\$21,274	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409	\$21,409
County Assessing & Collecting	\$222,078	\$224,498	\$226,918	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361	\$228,361
TOTAL	\$13,845,177	\$13,996,049	\$14,146,921	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895	\$14,236,895
100% of Incremental Tax Revenues - at 15 Yrs per Parcel																						
Salt Lake County	\$517,623	\$457,052	\$403,641	\$343,643	\$273,913	\$205,571	\$189,251	\$172,931														