REVIEW OF FINANCIAL FEASIBILITY

TIMBER YARDS PARCEL A LOT 1 PROJECT

MUPTE PROGRAM APPLICATION

Prepared for: City of Bend, Oregon

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Contents

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1. Executive Summary

Introduction

PNW ECONOMICS, LLC was retained by the City of Bend to review the Kennedy Wilson Timber Yards Parcel A, Lot 1 ("A/1") Project Multi-Unit Property Tax Exemption ("MUPTE") program application as part of City review of the project application. Specifically, PNW ECONOMICS was tasked with:

- Reviewing project application assumptions including rent income, non-rent income, operating expenses, bank underwriting assumptions, and other pertinent assumptions;
- Evaluating projected return on investment for the project without MUPTE and with MUPTE, which grants a ten-year property tax exemption for the project in order to incentivize its financial performance such that investment and development is possible and positively contributes to the Bend economy in place of property underutilization; and
- Communicating all analysis and findings appropriately for review by community members and elected officials.

This document represents completion of these tasks for review by the City of Bend and its partners and stakeholders.

Summary of Findings

An independent pro forma analysis was conducted by PNW ECONOMICS for the proposed Timber Yards A/1 project in the Old Mill District of Bend. The following table provides a concise summary of the outcome of not awarding and awarding a MUPTE to the project, which comprises 246 apartment units and 15,623 square feet[1] of retail space.

Table 1 – Timber Yards A/1 Project Measures of Return With & Without MUPTE: 246 Units & 15,623 Sq. Ft. Retail

	MUPTE Award?	
	YES	NO
Income		
Lease Income	$7,518,675	$7,518,675
Other Income	$1,559,026	$1,559,026
Less: Vacancy Loss	($453,885)	($453,885)
Gross Income	$8,623,817	$8,623,817
Expenses		
Pre-Tax Operating Expenses	($1,637,487)	($1,637,487)
Property Taxes	($813,207)	($813,207)
MUPTE Awarded	**$747,903**	**$0**
Total Operating Expenses	($1,702,792)	($2,450,695)
Net Operating Income (NOI)	**$6,921,025**	**$6,173,122**
Total Development Cost	**$116,952,000**	**$116,952,000**
Return on Investment (Cost)	**5.9%**	**5.3%**

[1] Net rentable square feet. Gross retail square footage that includes common area or other non-rentable space is 16,445 square feet.

<u>Without MUPTE Conclusion:</u> The Timber Yards A/1 project falls short of minimum Return on Investment metric. Employing a minimum Return on Investment (Cost) measure of return of 6% as a result of thumb for project pursuit, the Timber Yards A/1 project's income does not justify its operating expenses, with an ROI of 5.3%. The rule-of-thumb minimum ROI of 6% would indicate the project has inadequate return by this metric, but not dramatically.

<u>With MUPTE Conclusion:</u> The Timber Yards A/1 project reaches the cusp of minimum ROI benchmark with the MUPTE and only with the tax exemption compared to the No MUPTE scenario.

- A MUPTE awarded that would reduce a roughly $747,903 property tax burden for the development is estimated to enhance ROI for the project to 5.9% compared to 5.3% without the MUPTE.
- Although a MUPTE award would enhance expected feasibility of the project and enhance assurance of its success, the estimated ROI with the MUPTE still does not quite reach the applied 6% rule-of-thumb minimum. In other words, the MUPTE is a critical aid in this project happening, but it can still be viewed as a challenged project with higher risk.

In general, assumptions by the Applicant were reviewed and seemed reasonable or within a range of competitiveness with other reasonably comparable projects in Bend, most notably the Jackstraw. Key Applicant assumptions are verified in this report in the context of displayed data for other projects for comparison.

Review of all development and financial assumptions in the MUPTE Application for the Timber Yards A/1 project yielded the following other general finds and comments:

- The Timber Yards A/1 project has rents assumptions that are seemingly consistent with market conditions in Bend among newer projects.
- Development costs of the project are seemingly consistent with current construction market conditions, as verified by comparable projects planned or under construction.
- Non-rent revenues were found to be somewhat high, but assuming higher revenues will tend to weaken an argument for a MUPTE, all things equal, not make a MUPTE seem more necessary.
- Operating expenses, on a cost-per-unit basis, are significantly higher for the Timber Yards A/1 project than for its peer group, most notably the Jackstraw, in fact over 26% higher.

Based on the significant difference in operating expenses for the Timber Yards A/1 project, a MUPTE sensitivity analysis was conducted assuming operating expenses more on par with the Jackstraw. Those results are found in the final section of this report and indicate that lower expenses do materially strengthen the project, though not dramatically. PNW Economics recommends the City of Bend seek clarification on the assumed operating expenses of the Timber Yards A/1 project and why on a cost-per-unit basis they are notably higher.

2. Financial Feasibility Analysis

Financial Feasibility ("Pro Forma") Assumptions

Debt vs. Equity & Project Financing

Table 2 provides a summary of project permanent financing assumptions considered in this analysis. The Applicant documents that 68% of total development cost will be debt financed, while 32% will be equity-financed. Financing much more than 50%-55% of development cost has been less common the past couple of years due mostly to perceived risk in the lender market, particularly accelerated by two sizeable bank failures early in 2023. But lending assumptions also vary with developer and their size, reach, and access to different sources of financing and equity with more (or less) experience with such projects.

From a development economic return perspective, higher debt as percentage of total cost tends to make Cash Flow lower, all things equal. That is, Net Operating Income less debt service is Cash Flow. Lower cash flow, than if the project required more equity investment and less debt, will tend to translate into otherwise lower Cash-on-Cash return for the project. As this project utilizes Cash-on-Cash return as a key metric of economic viability, the ultimate impact of these financing assumptions upon measure of return for Timber Yards A/1 will be particularly noted later in this report.

Table 2 – Timber Yards A/1 Project Permanent Debt Finance Assumptions

	246 Units **2023 Dollars**
Total Development Cost	$116,952,000
Permanent Loan	$79,394,801
Equity	$37,557,199
Percent Financed	68%
Annual Interest Rate	5.75%
Amortization (Years)	30
Annual Permanent Debt Service	($5,614,502)

Development Costs

Timber Yards A/1 MUPTE application materials indicate a total development cost of $116,952,000 for the 246-unit, 331,469 square-foot improvement. The project's more urban orientation, not unlike the Jackstraw but smaller, includes a two-story parking structure. Accordingly, PNW Economics compares the project to the Jackstraw as well as the Riverfront 3A mixed-use development in Eugene as a peer group of comparable, relative size, parking, mix of uses, and vintage of cost information. Table 3 provides a comparison of the three projects with appropriate details.

The Timber Yards A/1 project overall has development cost metrics not unlike its peer group, and in fact very similar to the Jackstraw on a per-square-foot cost basis.

- Total Cost per Unit: $475,415 (Timber Yards A/1) vs. $546,956 (Jackstraw)
- Total Cost per Sq. Ft.: $353 (Timber Yards 1/A) vs. $357 (Jackstraw)

Table 3 – Timber Yards A/1 Comparative Development Costs

	Bend Timber Yards A/1	Bend Jackstraw	Eugene Riverfront 3A
Units	**246**	**313**	**237**
Total Sq. Ft.	**331,469**	**480,000**	**272,983**
Land Acquisition	$7,530,102	$7,662,931	$2,782,504
Hard Costs	$88,807,991	$127,186,251	$96,444,138
Soft Costs & Contingencies	$20,613,946	$36,348,016	$27,545,538
Total Development Costs	**$116,952,039**	**$171,197,198**	**$126,772,180**
Total Cost Per Unit	$475,415	$546,956	$534,904
Total Cost per Sq. Ft.	$353	$357	$464

Jackstraw project costs include a number of open space, public space, and pedestrian way improvements among other Public Good investments for the stand-alone development. Accordingly, total costs and total costs per unit are higher than for the Timber Yards A/1 generally. The Subject project does include Public Good investments, but as the first phase of the much larger master planned Timber Yards development, this first project does not have as much non-structure cost included. Overall, Timber Yards A/1 costs do line up credible with most-recent mixed-use projects that include public space investments and structured parking.

Assumed Rents & Escalation

Table 4 provides a summary of apartment rents utilized in the pro forma analyses in this section. Rents assumed are planned rents for each of the unit types as proposed by the Applicant. Annually after 2024, rents are assumed to escalate by 3.5% annually.

Rents overall appear consistent with newest projects including the Jackstraw project. Projects delivered in 2022 or earlier do exhibit rents proposed at the Subject, Jackstraw, The Current and The Nest. The exception seems to be the Townhouse units at Timber Yards A/1, which on a per-square-foot rent basis are higher that the limited number of townhouse units present in other newer projects. Gross rents for townhouse units at the Subject are comparable to others, however, but the Timber Yards A/1 Townhouse units are smaller. Higher rents per square foot are the result.

Overall average rents at the Subject are extremely similar to the Jackstraw, but that is logical as from locational and market delivery (newest) perspectives, Timber Yards A/1 should conceivably be head-to-head competitive with planned Jackstraw rents. Examples of other more recent market offerings for apartments in Bend include:

- **The Current** (954 SW Emkay Drive, Bend) – the newest project to delivery identified in the city:
    - 416 average square foot Studio units for $1,649 average ($3.98 per square foot).
    - 548 square foot 1 bed units for $1,809 average ($3.30 per square foot).
    - 934 square foot 2 bed units for $2,363 average ($2.53 per square foot).
    - 1,359 square foot Townhouse units for $3,299 average ($2.43 per square foot).
- **The Nest** (1609 SW Chandler Avenue, Bend):
    - 481 average square foot Studio units for $1,890 average ($3.93 per square foot).
    - 1,049 square foot 2 bed/2 bath for $2,792 average ($2.66 per square foot)
- **Solis at Petrosa** (63190 Deschutes Market Road):
    - 620 square foot 1 beds for $1,805 average ($2.91 per square foot).

    - 885 square foot (average) 2 beds for $2,229 average ($2.52 per square foot).
    - 1,132 square foot 3 beds bath for $2,575 ($2.27 per square foot).
- **The Eddy Apartments** (801 SW Bradbury Way): 678 square foot 1 bed for $1,913 average ($2.82 per square foot).
- **Outpost 44 Apartments** (643 NE Ross Road) – located more distantly from the river, central commercial district amenities and east of Highway 97 thus reflecting lower rents than the rest of the peer group.
    - 734 square foot 1 beds for $1,770 average ($2.41 per square foot).
    - 1,036 square foot 2 beds for $1,925 ($1.86 per square foot).
    - 1,376 square foot 3 beds for $2,325 ($1.69 per square foot).
    - 1,588 square foot Townhouse units for $3,240 ($2.04 per square foot).

Table 4 – Timber Yards A/1 Project Market Apartment Rents Compared w/Jackstraw – 246 Units

Timber Yards A/1

MARKET RATE Unit Type	Unit Mix Units	Percentage	Average Unit Size (Sq. Ft.)	Monthly Rent	Rent per Square Foot
Studio	23	9%	530	$1,805	$3.41
One bedroom	157	64%	744	$2,139	$2.88
Two bedroom	51	21%	990	$3,102	$3.13
Townhouses	15	6%	1,119	$3,293	$2.94
Subtotals/Averages	**246**	**100%**	**798**	**$2,378**	**$2.98**

Jackstraw

MARKET RATE Unit Type	Unit Mix Units	Percentage	Average Unit Size (Sq. Ft.)	Monthly Rent	Rent per Square Foot
Studio	15	5%	483	$1,824	$3.78
One bedroom	189	61%	669	$2,167	$3.24
Two bedroom	91	29%	1,091	$2,993	$2.74
Three bedroom	16	5%	1,460	$3,360	$2.30
Subtotals/Averages	**311**	**100%**	**824**	**$2,453**	**$2.98**

From a MUPTE-modeling perspective, higher rents in the pro forma will tend to make the need for a MUPTE less likely. That is, higher rent income will tend to increase Net Operating Income (NOI) as well as cash flow, which is simply NOI less debt service. Project rents that are inexplicably low relative to market would run the risk of overstating MUPTE need.

That is not the case here. In context, market rents at Timber Yards A/1 are competitive with most comparable, new apartment projects in Bend and specifically on-par with the Jackstraw, the most-comparable project to the Subject due to similar locational, unit similarities, and planned quality.

Non-Rent Revenues

Table 5 summarizes the various sources of revenue for the project in addition to standard rent planned for the occupancy for housing units. The key feature of the project will be 254 parking spaces expected to rent monthly or an average of $81.93. That may include a blend of higher and lower-cost parking space exclusive to residences, or a mix of space with some available to retail or other visitors. Greater detail of parking fee structure we not provided for review.

Table 5 – Timber Yards A/1 Project Non-Apartment Rent Income Assumptions

	Monthly	Annual	
Non-Apartment Rent Revenue	**Timber Yards A/1**	**Timber Yards A/1**	**Jackstraw**
Parking (monthly rate 254 stalls)	$81.93 per stall	$249,723	
Retail (16,445 sf leaseable)	$43.71 / sq. ft.	$718,811	
Other (Misc. Fees, Deposits)	$1,979 per unit	$486,834	
Total Non-Rent Revenue:		**$1,455,368**	**$1,240,403**
Total Per Unit		**$5,916**	**$3,725**

Retail space is expected to rent for $43.41 per square foot per month. That would be at or near top-of-market as published, generally available space and lease rates in the vicinity of the Old Mill District tend to top out at $39 per square foot for established space.

Overall, PNW Economics considers non-rent income assumed by the Timber Yards A/1 to be on the high side, certainly compared to the average reported for the nearby Jackstraw in Table 5. However, high assumed revenues will tend to understate the need for a MUPTE and, therefore, from the City's perspective are conservative.

PNW Economics will utilize Applicant assumptions for non-rent income as a result.

Operating Expenses

Apartment Operating Expenses

Table 6 below provides a comparison of annual operations expenses per unit anticipated by the Applicant excluding property tax expense. For context, annual per-unit operating expenses for the Jackstraw and Penn Avenue, different apartment projects applying for or having applied for a City of Bend MUPTE, as well as recent urban apartment MUPTE applicants in the City of Eugene are compared.

Based upon these findings, PNW Economics finds Timber Yards A/1 operating expenses-per unit to be elevated by 27% relative to the other Bend projects seeking or having sought a MUPTE, but modestly less than projects in Eugene that have applied for that city's MUPTE. Since Jackstraw is the most comparable project to Timber Yards A/1, gross annual operating expenses at stabilized year (95% occupancy) are below:

- Timber Yards A/1: $1,528,612 annually;
- Jackstraw: $1,534,570 annually.

Gross operating expenses for the entirety of each project differs by only $5,958 annually, or by only 0.4%. The negligible difference in gross operating costs is noteworthy as the projects are similar enough for comparison purposes, with the realization that the Jackstraw has 87 more residential units to manage than Timber Yards A/1.

Table 6 – Timber Yards A/1 Project Operating Expenses Per Unit vs. Comparable Projects

	Per Unit Expenses Annually			
	Timber Yards A/1	Jackstraw	Penn Avenue	Eugene Projects*
Before Property Tax Expenses: Stabilized	$6,214	$4,903	$4,679	$6,700

*Non-55+ active community projects

Based on this review, PNW Economics recommends the City of Bend consider asking the Applicant to clarify operating expenses for the Subject. Higher per-unit operating expenses relative to the Jackstraw should be explained because such higher costs end up having potentially significant impact upon Timber Yards A/1 Net Operating Income and Cash Flow:

- Gross operating expenses in the MUPTE application: $1,528,612
- Gross operating expenses assuming Jackstraw per-unit cost ($4,903): $1,206,084
- Delta to Timber Yards A/1 NOI and Cash Flow: $322,528 annually.

In other words, if Timber Yards A/1 operating expenses were more on par with the Jackstraw, its pro forma would report $322,528 more annually for NOI and Cash Flow, which in turn would significantly improve the project pro forma without (and with) a MUPTE.

PNW Economics will assume Applicant operating expenses, but will also consider in the final analysis what the specific impact upon MUPTE need is should operating expenses be inexplicably elevated.

Property Taxes

Table 7 provides estimates for property taxes that will be paid on both the land as well as expected improvements value on a "Cost of Replacement" basis – the total development cost of improvements alone if built new.

Parcel taxable assessed value (TAV) data is directly from the Deschutes County Assessor's Office parcel database online (DIAL). Taxable assessed value for land associated with Timber Yards A/1 is calculated utilizing the fact that the site is 11.53% of the total land area of the single, larger master planned 21.41-acre property.

Taxable assessed value estimated for the value of improvements assumes total improvement development costs as expressed by the Applicant and then converted to Measure 50 TAV via the Deschutes County 2023-24 Multifamily Exception Value Ratio of 0.403 and Commercial Exception Value Ratio of 0.449. Finally, the tax rate of $15.9868 per $1,000 of TAV was utilized for Tax Code Area 1128 that includes the project address of 175 SW Industrial Way in Bend, Oregon.

Property tax bills for the Timber Yards A/1 site, along with its multifamily housing component and its commercial component are summarized for the first year (Year 1) below:

- Land only: $469,390 TAV and $7,504 calculated property tax.
- Multifamily improvements only: $44.1 million TAV and $704,971 calculated property tax.
- Commercial improvements only: $3.38 million TAV and $54,051 calculated property tax.

Table 7 –Timber Yards A/1 Project Estimated Property Tax: Land & Improvements in FY 24 (First Year)

			Cost of Replacement - Improvements	$109,421,937		
			Exception Value Ratio - Multifamily (7)	0.403		
			FY 24 Taxable Assessed Value	**$44,097,041**		
			Cost of Replacement - Retail Improvements	$7,530,063		
			Exception Value Ratio - Commercial (2)	0.449		
			FY 24 Taxable Assessed Value	**$3,380,998**		
				Taxable Assessed Value (FY 24)		
Parcel	**Account #**	**Acres**	**Zoning**	**Land**	**Improvements**	**Total**
175 SW Industrial Way	117562	2.15	300 - Industrial	$469,390	$0	$469,390
			Tax Code Area 1128 (per $1,000 TAV)	15.9868	15.9868	15.9868
			Total Property Tax - Land Only	**$7,504**	**$0**	**$7,504**
Multifamily Improvements				$0	$44,097,041	$44,097,041
			Tax Code Area 1128 (per $1,000 TAV)	15.9868	15.9868	15.9868
			Total Property Tax - Multifamily Improvements	**$0**	**$704,971**	**$704,971**
Commercial Improvements				$0	$3,380,998	$3,380,998
			Tax Code Area 1128 (per $1,000 TAV)	15.9868	15.9868	15.9868
			Total Property Tax - Commercial Improvements	**$0**	**$54,051**	**$54,051**
175 SW Industrial Way		2.15	300 - Industrial	$469,390	$47,478,039	$47,947,429
			Tax Code Area 1128 (per $1,000 TAV)	15.9868	15.9868	15.9868
			Total Property Tax - All Combined	**$7,504**	**$759,022**	**$766,526**

For MUPTE analysis purposes, this report excludes the value of commercial development similar to its exclusion from the Jackstraw project MUPTE analysis. Accordingly, key MUPTE property tax figures for the first year (Year 1) are as follows:

- Property tax payment (FY24) not applicable to MUPTE: $7,504 + $54,051 = $61,555. This figure represents tax to be paid on land and commercial improvements, neither subject to the MUPTE.
- Property tax payment (FY24) subject to a MUPTE: $704,971. This figure represents tax to be paid on the value of multifamily housing improvements and could be the value of a MUPTE if it is awarded.
- Total property tax payment (FY24): $766,526. This represents the whole property tax bill for Timber Yards A/1 land and all improvements should the project not receive a MUPTE.

Financial Feasibility Analysis of the Timber Yards A/1 Project

Introduction to Terms

To evaluate whether or not a project is financially feasible, that is whether or not the project meets investment rates of return benchmarks, a pro forma analysis is conducted. A pro forma is simply a financial modeling exercise to examine how a development project performs as a business investment over a specified period of time.

Variables that are modeled, or estimated, in this report are as follows:

<u>Apartment Rent Income:</u> The annual rent income if all apartment units in a project were occupied and charging full, assumed market rent.

Gross Project Income: The sum of Apartment Rent Income, Retail Lease Income and Other Income streams such as parking, storage fees, electric vehicle parking fees, bike storage fees, electric bike charging fees and other related fee streams.

Vacancy: 5% of apartment space and retail space is assumed to always be vacant and represent income loss.

Lease-Up Vacancy & Concessions: This category of expense reflects different sources of loss to revenue as a result of project vacancy and discounts to apartment rents to realize and keep an average 5% vacancy rate.

Effective Gross Income: Gross Project Income less Vacancy and Lease-Up Vacancy & Concessions.

Operating Expenses: Average annual operating expenses of $6,214 per apartment unit to start.

MUPTE: When included, MUPTE is a 10-year exemption from local property taxes levied on the value of the improvement constructed in place, in this case the Timber Yards A/1 project. Based on an estimated multifamily housing cost-of-replacement of $109,421,937 in 2023 dollars and a local, existing total property tax rate of $0.0159868 (Tax Code Area 1128), the estimated MUPTE exemption beginning in year 1 would be $704,971. This would increase by an assumed 3% annually, consistent with the annual maximum under Oregon property tax law.

Net Operating Income (NOI): Effective Gross Income less Project Operating Expense plus the MUPTE (if assumed).

Equity: The share of total development cost that is funded by invested dollar assets rather than by debt.

Loan-To-Cost (LTC): The amount of debt a project can take on as a percentage of its cost to develop. This analysis assumes a 55% LTC ratio consistent with prevailing commercial lending market conditions, but lower than assumed by the Applicant.

Debt Service: The annual, fixed debt service payment made by the developer for permanent debt financing of the project.

Before Tax Cash Flow: Net Operating Income Less Debt Service.

Cash-on-Cash Return: Before Tax Cash Flow divided by development equity ($37.56 million in this analysis). Cash-on-Cash Return is frequently also called Return on Equity and usually needs to be at least 6% in early years of a project to be a satisfactory investment for equity partners in a project. This can vary depending upon developer and equity partners, however.

Return on Investment (Cost): ROI is calculated as “stabilized” Net Operating Income divided by Total Development Cost, here stabilized refers to the project when it is 95% occupied and has stable annual income. There is no hard rule for acceptable ROI for a real estate development project, but a common minimum ROI for moving forward with a development is 6%. Developers will vary on required ROI to go through with a project, but a minimum of 6% is a common minimum.

Timber Yards A/1 Project Pro Forma With & Without MUPTE: Developer Operating Expenses

Table 8 reports the Return on Investment (Cost) pro forma for the Timber Yards A/1 project with and without a MUPTE assuming the Applicant’s elevated operating expenses as detailed earlier in this report.

Table 8 – Timber Yards A/1 Project NOI and ROI With & Without MUPTE: Developer Operating Expenses

	MUPTE Award?	
	YES	**NO**
Income		
Lease Income	$7,518,675	$7,518,675
Other Income	$1,559,026	$1,559,026
Less: Vacancy Loss	($453,885)	($453,885)
Gross Income	$8,623,817	$8,623,817
Expenses		
Pre-Tax Operating Expenses	($1,637,487)	($1,637,487)
Property Taxes	($813,207)	($813,207)
MUPTE Awarded	**$747,903**	**$0**
Total Operating Expenses	($1,702,792)	($2,450,695)
Net Operating Income (NOI)	**$6,921,025**	**$6,173,122**
Total Development Cost	**$116,952,000**	**$116,952,000**
Return on Investment (Cost)	**5.9%**	**5.3%**

It should be noted that in this set of results, and in the second scenario that follows where Jackstraw-equivalent per-unit operating expenses are modeled all generally assume 2026 is the stabilized project year. As such, all major pro forma variables but development cost have been escalated by 3.0% to 3.5% annually for two years in attempt at consistency. Property tax expense and calculated MUPTE were escalated for two years at only 3.0% per Measure 50 requirements.

Assuming a minimum ROI benchmark for a project of 6.0%, the project as modeled in Table 8 falls short of feasibility with a 5.3% calculated ROI. However, with a $747,903 MUPTE for the value of multifamily housing improvement, excluding land and commercial improvements, the project reaches the cusp of 6.0% ROI with a calculated 5.9%.

Finally, results of the analysis are similar to "Trended" Return Metrics reported by the Applicant, if not sightly higher. This analysis calculated sightly higher MUPTE value reflecting 2026 property tax values, among other slight differences. The Applicant found without MUPTE a 5.0% (4.95%) Return on Investment and with MUPTE, a 5.7% (5.68%) ROI.

Timber Yards A/1 Project Pro Forma Sensitivity Analysis: Lower Operating Expenses

Table 9 reports the Return on Investment (Cost) pro forma for the Timber Yards A/1 project with and without a MUPTE assuming lower operating expenses than assumed by the Applicant. Recall that in an earlier section, Applicant-assumed operating expenses per-unit were identified to be over 26% higher than the very comparable Jackstraw projected located nearby and currently under construction. Analysis in Table 9 conducts the same analysis as in Table 8, however assuming Timber Yards A/1 operating expenses are not 26% higher than those documented or the Jackstraw, but on par.

Table 9 – Timber Yards A/1 Project NOI and ROI With & Without MUPTE: Jackstraw Operating Expenses

	MUPTE Award?	
	YES	**NO**
Income		
Lease Income	$7,518,675	$7,518,675
Other Income	$1,559,026	$1,559,026
Less: Vacancy Loss	($453,885)	($453,885)
Gross Income	$8,623,817	$8,623,817
Expenses		
Pre-Tax Operating Expenses	($1,291,987)	($1,291,987)
Property Taxes	($813,207)	($813,207)
MUPTE Awarded	**$747,903**	**$0**
Total Operating Expenses	($1,357,291)	($2,105,194)
Net Operating Income (NOI)	**$7,266,525**	**$6,518,622**
Total Development Cost	**$116,952,000**	**$116,952,000**
Return on Investment (Cost)	**6.2%**	**5.6%**

Dialing back operating expenses does have a measurable but not dramatic impact upon project ROI. Without a MUPTE, Timber Yards A/1 stabilized Return on Investment is 5.6%, which does fall short of the rule-of-thumb minimum 6%. But with lower operating costs similar to the Jackstraw, that no-MUPTE ROI is closer to the minimum threshold (5.6% vs. 5.3%).

Assuming a MUPTE is awarded to the project, ROI is calculated at 6.2%, which does exceed the minimum rule-of-thumb, but not by a lot. But by exceeding 6.0% with the MUPTE at 6.2%, lower expenses have indeed had the material effect of pushing the project symbolically closer to minimum feasibility.

It is again noted that different developers will use not only different measures of return, but also different criteria for a minimum and/or successful rate of return for that measure. This analysis employs a rule-of-thumb minimum of 6% return on cost for a project to be worth the risk. On this measure alone, MUPTE makes the Timber Yards A/1 project more compelling than without the MUPTE. If the Applicant internally employs a lower threshold ROI for project evaluation, such as 5%, then it can be said the MUPTE not only makes the project more compelling but certainly assures the project would worth the risk and expense in a way that would not be possible without the MUPTE.

Given that the nature of project operating expenses is a noted contrast to the Jackstraw, the City of Bend should consider seeking clarification of operating costs in the context of comparisons. The project is not a feasibility “home run” with or without the MUPTE, but the operating expense difference makes a measurable impact on ROI measurement.