



# NEWBERG DOWNTOWN IMPROVEMENT PLAN



# NEWBERG CORE CATALYST SITE FEASIBILITY STUDY

PREPARED BY



LELAND CONSULTING GROUP

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## Overview

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This Downtown Core Catalyst Site Feasibility Study has been prepared as part of the Newberg Downtown Improvement Plan (NDIP). In early 2015, the City of Newberg, Oregon was awarded a grant by the Oregon Department of Transportation (ODOT) and the Department of Land Conservation and Development (DLCD) to develop a roadmap for improving Newberg's downtown. This project, the NDIP, will focus on land use, transportation, and design solutions to achieve a thriving and livable downtown that meets the community's vision and aspirations. The NDIP is being led by the City of Newberg with support from a project consultant team, a community advisory committee, and general public input. The NDIP is anticipated to be complete in early 2017.

The purpose of the Newberg Downtown Core Catalyst Site Feasibility Study is to show stakeholders and the public how incremental downtown revitalization could occur by testing the feasibility of development on a quarter-block vacant site located in the heart of downtown Newberg at the northwest corner of E. First and Howard Street, commonly known as the Butler Property. Testing the feasibility involved developing several alternative development programs (mixes of uses), preparing architectural studies of each, and financially modeling them to test whether potential development revenues exceed project costs, thereby making the project feasible. Where not feasible, the analysis makes recommendations on strategies to enhance feasibility.

## Key Questions

The purpose of this study is to evaluate the feasibility of developing the city owned property known as "the Butler Property" located at the core of downtown Newberg. A few of the key questions that this study addresses are as follows:

- Is it financially feasible to develop the Butler Property in today's market?
- Which of the development programs considered is the most feasible, or the closest to feasibility?
- If the development programs are not feasible what modifications to the building, or changes to the program could make them feasible?
- What other options for development of the site should be considered?

## Summary of Findings

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This study set out to analyze the feasibility of development on the subject site, “the Butler Property.” The site is primarily constrained by its small size, but also suffers from limited exposure and, at the moment, significant traffic volume and noise.

The feasibility analysis considered three different development programs for the subject site. These programs were identified through analysis of the downtown Newberg market and via direction from the NDIP Project Management Team and Project Advisory Committee. The three development programs are:

- A hotel with limited ground floor retail and internal parking
- Mixed-use office, with two floors of office space above a first floor with retail and parking
- Mixed-use residential, with three floors of rental apartments above a first floor of retail and parking

The analysis showed that none of these options are outright feasible in today’s market, but that a mixed-use residential project is the closest of the three options to feasibility. Should the City decide to pursue this development type, gap financing, a relaxation of parking limits, a denser building design, or a combination of these incentives would be necessary for the project to become feasible.

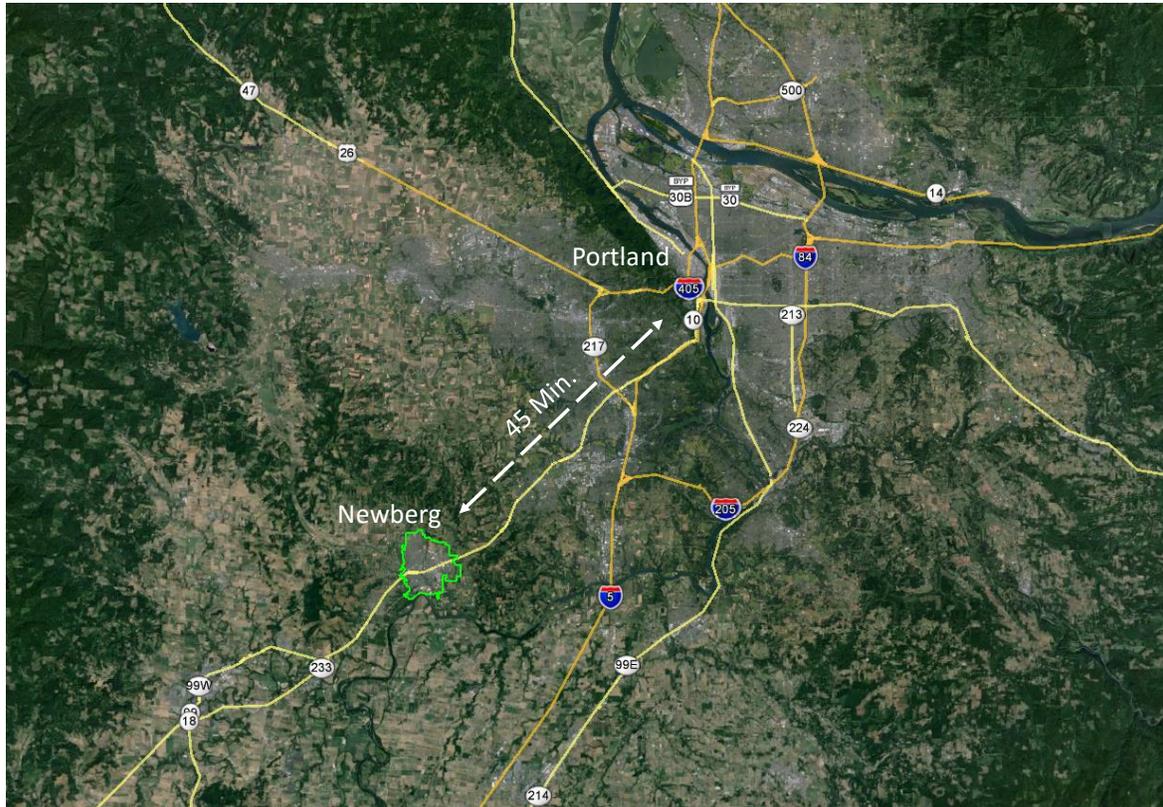
Other options worth considering for the site’s development include a public gathering space with limited retail/restaurant/microbusiness space or a mixed-use student housing development. Each of these options may be more feasible than the three development options analyzed in depth here.

## Geographic Context

### Area Analysis

The city of Newberg is located approximately 45 minutes by car southwest of Portland, Oregon. Newberg is a city of 22,900 people and is experiencing considerable population growth. The map below illustrates Newberg's location relative to the Portland metropolitan region.

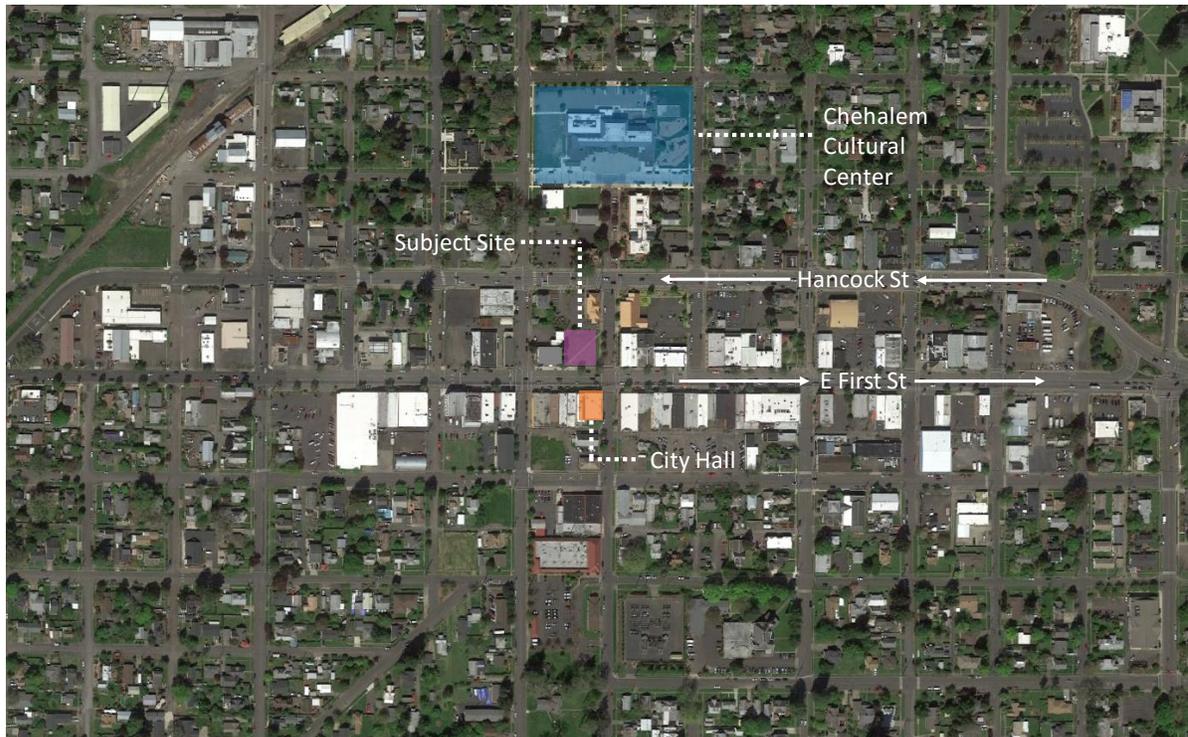
**Figure 1 - Location of Newberg, Oregon**



Source: Google Earth, Leland Consulting Group

Within Newberg, the subject site is located in the geographic center of the historic downtown area. Downtown Newberg is the civic hub and a major commercial district for the city. The downtown area provides a number of opportunities for future development. The area is more walkable than the strip commercial area of Highway 99W to the east and retains a classic grid street layout. In recent decades, traffic volumes, noise, and pollution have taken away from the natural attractiveness of the city center's classic early 20<sup>th</sup> century form. With the opportunity to route more traffic, and specifically truck traffic, on the upcoming Newberg-Dundee Bypass, downtown will become more attractive for investment.

**Figure 2 - Location of the Butler Site in Downtown Newberg**



Source: Google Earth, Leland Consulting Group

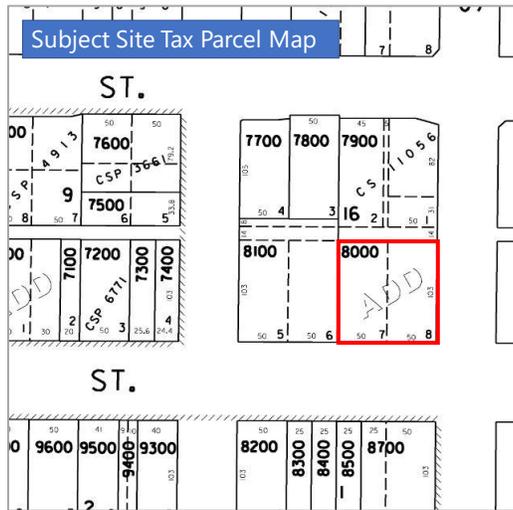
The subject site sits at the pivot point within the downtown area. Directly south, across East First Street, is City Hall, and a couple of blocks north is the Chehalem Cultural Center. The site is located in the one-way street couplet system of Hancock Street (west bound traffic) and East First Street (east bound traffic). These streets are also a major state highway, Oregon Highway 99W, with traffic volumes in excess of 16,000 vehicles per day in either direction and over 35,000 vehicles per day if both directions are counted together<sup>1</sup>.

## Site Analysis

The subject site is a 10,300 square foot vacant lot with no improvements present. The site is level and at street grade and measures 100' by 103.' The City of Newberg is the current owner of the site.

<sup>1</sup> Oregon Department of Transportation 2014 Traffic Volumes Tables, [http://www.oregon.gov/ODOT/TD/TDATA/Pages/tsm/tvt.aspx#Transportation\\_Volumes](http://www.oregon.gov/ODOT/TD/TDATA/Pages/tsm/tvt.aspx#Transportation_Volumes), Page 92.

**Figure 3 - Tax Parcel Map of the Butler Site**



Source: Yamhill County Assessor

There is a vacated public alley located along the northern edge of the site. It appears that the bank property immediately to the north of the subject site occupies this space and uses it for a drive aisle for its parking lot.

### Location, access, and exposure

The subject sits on East First Street at the intersection of Howard Street. As previously mentioned, the daily traffic volumes along East First Street are significant, with over 16,000 vehicle passing the property each day. Howard Street appears to see significantly less daily traffic, and there is no visibility of the site from Hancock Street.

There is on-street parking adjacent to the site along both East First Street and Howard Street. The city block to the southeast has a City owned public parking lot with 88 spaces that can be easily accessed from East Second Street (see Figure 4. below).

Figure 4 - Close Up Aerial View of the Butler Property



Source: Google Earth, Leland Consulting Group

Figure 5 - Aerial View of the Butler Property from City Hall

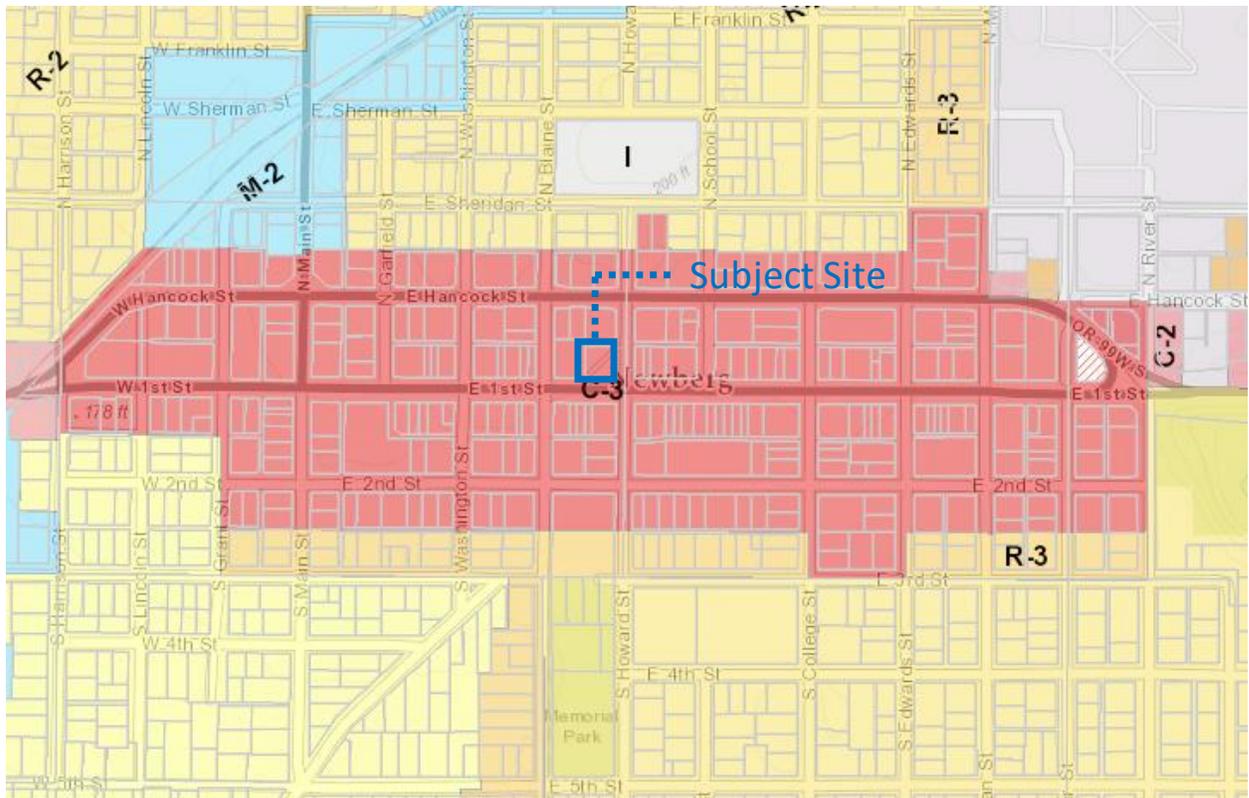


Source: Leland Consulting Group

## Land Use and Zoning

The subject is zoned C-3 – Central Business, a mixed use zone designation that allows for a variety of commercial and residential uses with an emphasis on creating a dense and urban development form. Zoning standards are quite lenient in the C-3 zone, with no setbacks, height limits, floor area ratio (FAR) limits, low parking requirements, and a wide range of allowed uses.

Figure 6 - Downtown Newberg Zoning Map



Source: City of Newberg, Leland Consulting Group

## Area and Site Analysis Summary

The subject site is located in the historic district of downtown Newberg. Generally, development prospects in the immediate area are on the rise, as Newberg's population continues to grow. The site itself is development ready and is located in a pivotal location in the downtown core. Traffic volume is significant, although the property's only visible from traffic traveling east on First Street or North/South on Howard Street. There is no site exposure to Hancock Street. Zoning is flexible with few setbacks or other building envelope restrictions. The site primarily suffers from its small size. At 10,300 square feet most development programs are going to be constrained and inefficient.

## Demographic and Market Analysis Summary

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An earlier report in this project, the Newberg Market Conditions Report, provided a detailed analysis of Newberg demographics, current market conditions, and market trends. Provided here is a summary of those findings.

### Newberg Demographic and Economic Summary

Newberg, Oregon is a city of approximately 23,000 people located 26 miles southwest of Portland, Oregon. Newberg was settled in the mid-19th century and later platted and incorporated as a city in 1889. Today Newberg is known as the gateway to Yamhill County's many wineries and one of the focal points of the Willamette Valley's wine country. Newberg is well positioned between the growing Portland metropolitan area to the northeast and the agricultural economy of the surrounding Willamette Valley. Below is a snapshot of Newberg's demographic profile.

- Newberg outpaced the state's growth rate during the decade of 2000 to 2010 and is currently continuing to grow at a faster rate than the rest of Oregon. **Between 2015 and 2020 Newberg is forecasted to grow by an average 1.89 percent per year<sup>2</sup>.**
- The average household size is **2.64 people, compared to Oregon's average of 2.45.**
- Nearly a quarter of Newberg's households (23 percent) are single-person households and 33 percent are two people. **Together, one and two-person households make up 56 percent of the total population.** Seventeen percent of Newberg households are three people and 15 percent are four people.
- **Newberg's household median income is \$58,602**, which is slightly higher than both the Oregon and U.S. household median incomes.
- As of 2010, about **59 percent of Newberg housing units are owner-occupied** and 35 percent are rented.
- Approximately 28 percent of Newberg's population is a high school graduate or has a GED; 25 percent have had some college, but no degree; **over 20 percent have a bachelor's degree; and 9.3 percent have a graduate degree.** These percentages are in-line with the State of Oregon numbers.
- While Newberg's population is fairly homogeneous at 85 percent white, **over 14 percent of the population identifies as Hispanic.**

Newberg is the second largest city in Yamhill County after McMinnville, and together the two cities comprise over half of Yamhill County's population. Yamhill County has seen a steadily declining unemployment rate since the end of the recent recession. The seasonally adjusted unemployment rate was 6.6 percent in 2014, down from 7.6 percent in 2013. The month by month unemployment rate for 2015 has continued to show promising declines. It's worth noting that 7.6 percent down to 6.6 percent is a considerable drop and reflects the county's steady climb out of the recent recession.

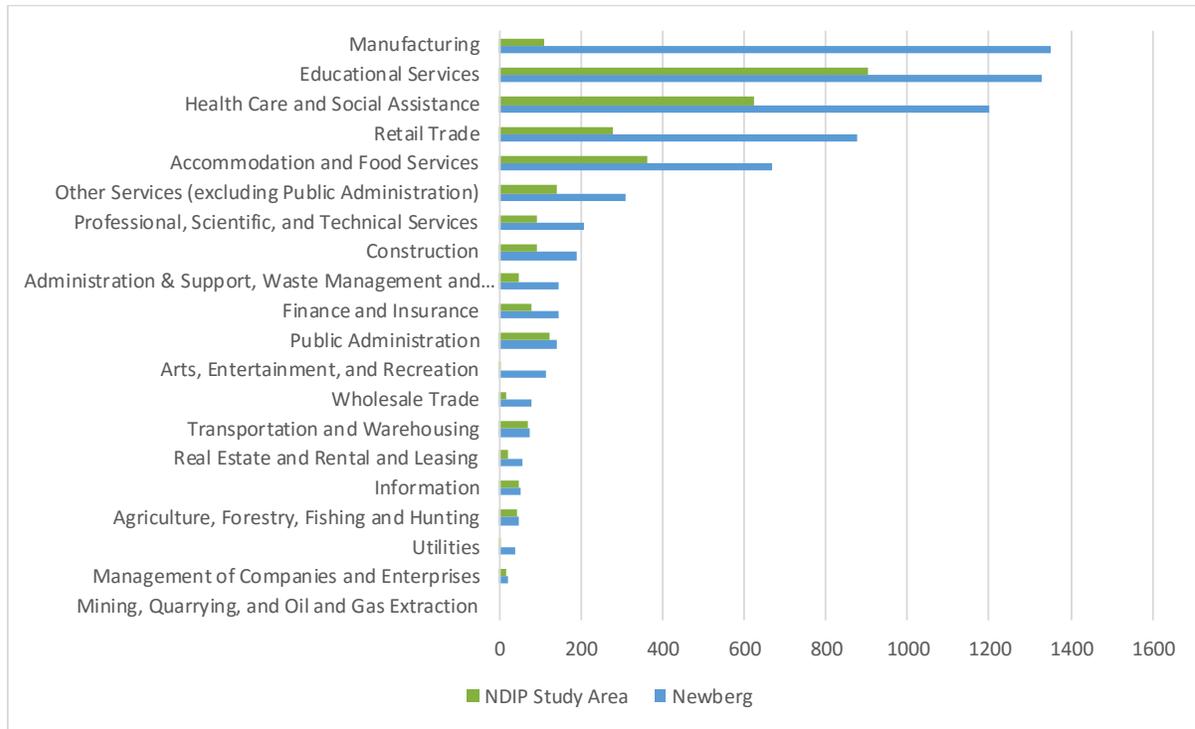
Newberg has over 7,000 full-time workers, with a few large employers that form the base of its economy. At the top of the list is notable dental equipment firm A-dec with over 800 employees. Providence Newberg Medical Center, George Fox University, Portland Community College, and the Allison Inn & Spa resort are other significant employers. With five elementary schools, two middle schools, and a four-year high school, Newberg School District also contributes significantly to employment in the area.

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<sup>2</sup> City of Newberg, best estimate from recent growth

Figure 7 below illustrates the breakout of employment by industry within the entire city of Newberg as compared to the employment within the NDIP study area geography.

**Figure 7 - Employment by Industry, NDIP and Newberg (2013)**



Source: U.S. Census Bureau

## Newberg Real Estate Markets

### Residential

Single-family home prices in Newberg have yet to rebound to pre-recession levels and single-family housing permits in Newberg have declined dramatically since the recent recession. Fewer than 50 permits have been issued annually since 2009. While illustrative of the overall housing economy, single-family housing is not likely to be a significant use in the NDIP study area, and although condominiums are an appropriate use for downtowns, market fundamentals (pricing, lending criteria) are greatly favoring apartments over condominiums in all but the most expensive urban housing markets like downtown Seattle or Portland. Over the long term, however, these conditions might change and the market could favor condominiums over apartments.

Nationally, apartment demand and occupancy remains strong and demographics clearly favor the apartment sector over ownership housing. Declining homeownership is increasing the demand for apartments generally, and financing for home ownership has become much more difficult, which is exacerbating the shift to apartments, particularly among newly formed millennial households. Additionally, weak employment growth has resulted in more part-time jobs and weak income growth, which has created more renters. Apartment growth is most apparent in larger cities, near city centers, neighborhood centers, and along frequent transit lines.

The Newberg rental apartment market is of modest size and, despite relatively low rents, there is exceptionally tight vacancy. According to CoStar Property Analytics, there are 59 multifamily properties in the city of Newberg with an average size of 36 units. Few market-rate units have been added to the

market in the past decade. Multifamily rents are stable but generally lower than necessary to allow new construction to be feasible. Rents range between \$0.96 per square foot per month for average properties to \$1.20 to \$1.28 per square foot per month for newer construction. The newest apartment complex in Newberg, Springbrook Ridge which is completing construction in 2016, has asking rents of \$1.18 to \$1.25 per square foot per month.

Typical to the Newberg multifamily market are two to 10-unit complexes built in the 1970s and 80s. CoStar reports that the multifamily vacancy rate has fluctuated between less than two percent to almost four percent in the past five years. The current multifamily vacancy rate stands at an incredibly low 2.4 percent.

### Retail

CoStar reports that Newberg has 191 retail buildings totaling 1.32 million square feet of retail space. The market has a low vacancy rate of 3.8 percent. Rents vary widely by retail property type, condition, and configuration. New retail pads along 99W east of the downtown area are asking between \$13 per square foot per year on a NNN (triple net) basis<sup>3</sup> to the high \$20s. A few asking rents for new, first generation space are even in the low \$30s NNN.

Downtown Newberg consists of 102 retail buildings that account for 30 percent of the citywide retail stock by square footage. Rents in the downtown area are a magnitude lower than the strip retail on 99W. Average asking rates are between \$9 per square foot per year to \$12 per square foot per year on a triple net equivalent basis.

### Office

Newberg has 87 office buildings with a total of 429,969 square feet of rentable space. Typical to the Newberg office market are wood-framed Class B and C office buildings built between 1960 and 1990. Office vacancy stands at 7.5 percent according to CoStar; this is down from a high of almost 14 percent at the peak of the recession in 2009. Gross office rents<sup>4</sup> currently average around \$16.60 per square foot per year. Examining current listings, there are a number of available spaces in buildings constructed in the past decade along the 99W corridor northeast of downtown. These availabilities have asking gross rents that range from \$14 to \$24 square foot per year.

The office market in downtown differs from the citywide office market in a number of ways. The 27 office properties in downtown Newberg are, on average, smaller and older than offices citywide, with an average size of 3,021 square feet and average year built of 1958. Office vacancy downtown appears to be almost nonexistent, and in a related fashion, rents have been climbing in recent years. Although limited data is available, CoStar reports a current direct gross rent of \$20.52 per square foot per year for the NDIP area. This number has jumped considerably from 2008 to 2012, when office rents were averaging around \$13 per square foot per year.

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<sup>3</sup> Triple net leases or NNN leases are commercial real estate leases where the tenant is responsible for all of the property's expenses, with the exception of structural maintenance and tenant management fees. NNN leases are typical for retail and industrial properties.

<sup>4</sup> Gross rent structures are rents in which the landlord pays for most of the property's expenses. For this reason, gross rents are typically higher than triple net rents. Full service gross rents refer to when a landlord is paying all of a property's expenses, whereas "modified gross" refers to when the tenant and landlord share expenses.

## Feasibility Analysis

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This feasibility analysis considers three different development programs for the subject site. These programs were identified through analysis of the downtown Newberg market and via direction from the NDIP Project Management Team and Project Advisory Committee. The three programs are;

- A hotel with limited ground floor retail and internal parking
- Mixed-use office, with two floors of office space above a first floor with retail and parking
- Mixed-use residential, with three floors of rental apartments above a first floor of retail and parking

Leland Consulting Group created financial models, often times referred to as 'pro formas,' using local market assumptions to explore the financial feasibility of these three programs. The type of pro forma used in this analysis is a residual land value model. These models use costs, rents, and other assumptions from the local market as inputs, and then the model outputs the maximum land value that the developer could afford in order to reach target financial returns. The residual land value output should, at the very least, be a positive number. For complete feasibility, the residual land value output should be at or above the market value for the subject's land.

Key assumptions are critical to the accuracy of a financial model. A few of the general key assumptions are listed below:

- On-site parking is a feature in each of the three development program options. The C-3 Zone in which the subject site sits does not require parking for uses other than residential. For residential uses, a ratio of 1 parking space per unit is the requirement. Each option includes as much on-site parking as believed to be physically possible given site and design constraints. The number of parking spaces in each option does not always meet the zoning code requirement. Furthermore, it is assumed that there would be a monthly charge to residents for use of a parking space. This 'uncoupling' of parking from specific residential units is common in urban areas.
- Construction costs are an important component to any feasibility model. In this case we have used between \$130 to \$160 per square foot for total construction cost (hard and soft costs). This assumes primarily wood construction over a concrete podium. Estimating construction costs is always a moving target, and in the current market cycle costs are rising due to market demand for labor and materials. Should one of these development options be pursued, costs at the time of construction could be significantly different than the numbers modeled here.
- Capitalization rates are the ratio between a development's net income stream and its total market value. These rates indicate a level of risk or stability in the potential future income of the property. Typically, higher capitalization rates indicate higher risk and lower capitalization rates indicate more stability. Capitalization rate selection for these development options was determined through analysis of regional rate trends and a consideration of Newberg's relative position to the Portland market.
- Each development option contains ground floor retail space. This is a requirement of the C-3 zone and would add additional income to the development's cash flow. As discussed in the previous section, retail rents in the downtown area are modest, with the upper end of rents hovering around \$12 per square foot<sup>5</sup> on a triple net basis. The financial models here consider a retail rent of \$18 per square foot on a triple net lease structure. This is a magnitude higher than current retail rents in downtown, however this retail space would arguably be the best new space in downtown Newberg.

The following pages consider, in detail, each of the three development options for the site.

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<sup>5</sup> \$12 per square foot *per year*

## Hotel Analysis

This option considered building a mixed-use building on the subject site. The building would have parking, retail, and a lobby on the first floor. Hotel units would make up the upper floors. The sketch on the right illustrates a potential massing for the hotel building. The financial model considers a building of four stories.

Building a hotel on the subject site would be a great challenge and would likely not be economically feasible. This is primarily due to the following issues:

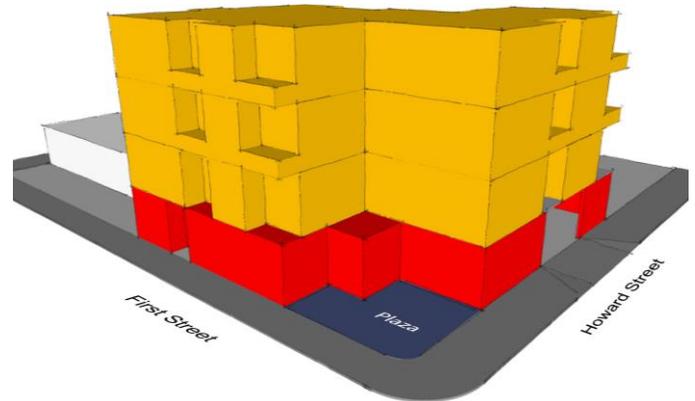
- Average Daily Rate (ADRs – the average daily rate per room per night after factoring in vacancies) that are potentially achievable are too low to warrant construction costs.
- Projected Net Operating Income (NOI) is insufficient to cover operating costs, debt, and return targets.
- Even if the land was contributed to the project at no cost to the developer, this option would require significant subsidy.
- The site size does not enable a sufficient number of parking spaces for a hotel to operate efficiently. With only 20 parking spaces the development would have fewer than 0.50 spaces per hotel room. This low ratio is well outside of current hotel market standards.
- The number of rooms (39) is likely too few to attract a hotel brand and potential local owners would have trouble qualifying for financing without a major brand.

Hotel Model Assumptions	
Building Size	26,420 Gross SF
Rentable Spaces	39 Hotel Rooms 705 Retail Rentable SF
Rents	\$120 Hotel Average Daily Rate (Year 1)
Parking Spaces	19 Ground Floor Internal Parking Spaces

Figure 8 - Urban Hotel Example



Figure 9 - Hotel Massing Model



Source: Greenworks

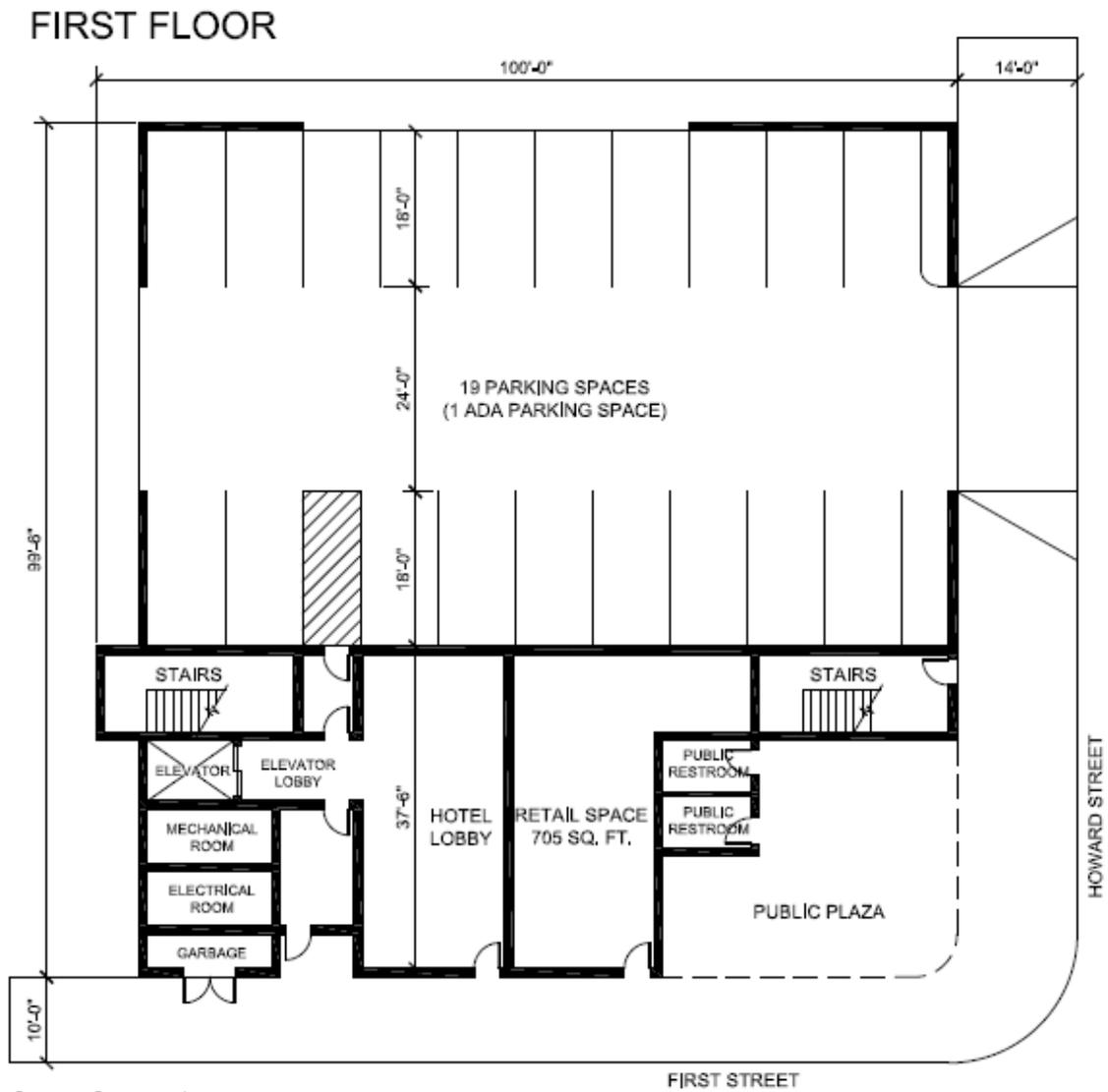


Figure 10 - Hotel Option Residual Land Value Per SF



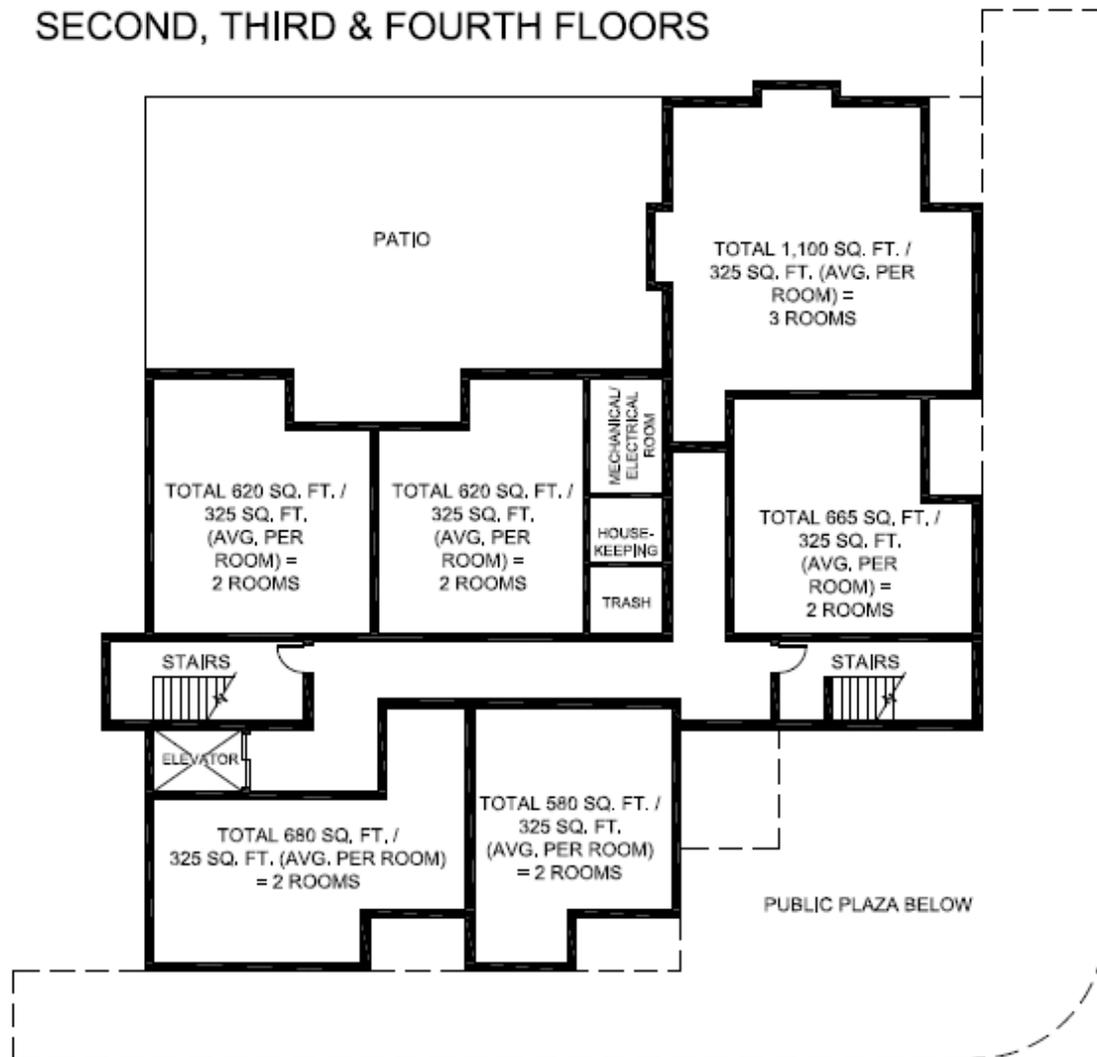
Source: Leland Consulting Group

Figure 11 - Hotel Option, First Floor



Source: Greenworks

Figure 12 - Hotel Option, Second, Third, and Fourth Floors



Source: Greenworks

## Office Mixed Use Analysis

This development option considered the construction of a three-story mixed use building with two floors of office over a first floor of parking and retail space. As described in the market analysis section, the downtown office market in Newberg is locally focused and does not currently have demand for speculative office space. It is for this reason that only two floors, a total of 14,000 rentable square feet, of office space was considered. Furthermore, because of this lack of demand for office space in downtown, it is assumed that an office user (or users) would be secured prior to construction in order for this option to be financed.

That being said, in order for this option to be financially feasible, a prospective office user would have to lease the office space for a rent almost 50% above current market rates<sup>6</sup>. It would be very challenging to find an office user willing to pay such high rates unless it were an owner-user. Therefore, this option is considered not feasible.

Feasibility issues include:

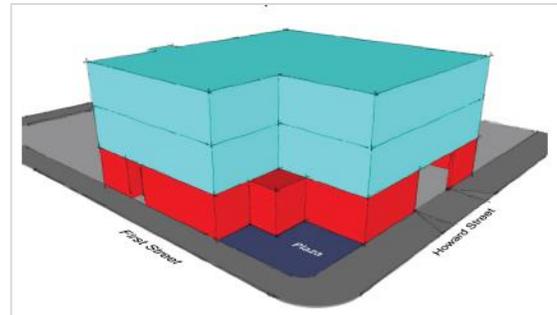
- Weak office market demand
- Low office market rents

Office Model Assumptions	
Building Size	25,373 Gross SF
Rentable Spaces	14,000 SF Office Space 1,350 Retail Rentable SF
Rents	\$23 per SF Modified Gross Office Rent  \$18 per SF NNN Retail Rent
Parking Spaces	19 Ground Floor Internal Parking Spaces

Figure 13 - Downtown Office Example



Figure 14 - Office Mixed Use Massing Model



Source: Greenworks

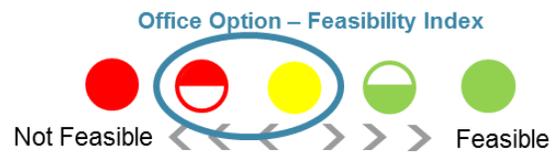


Figure 15 - Office Option Residual Land Value Per SF

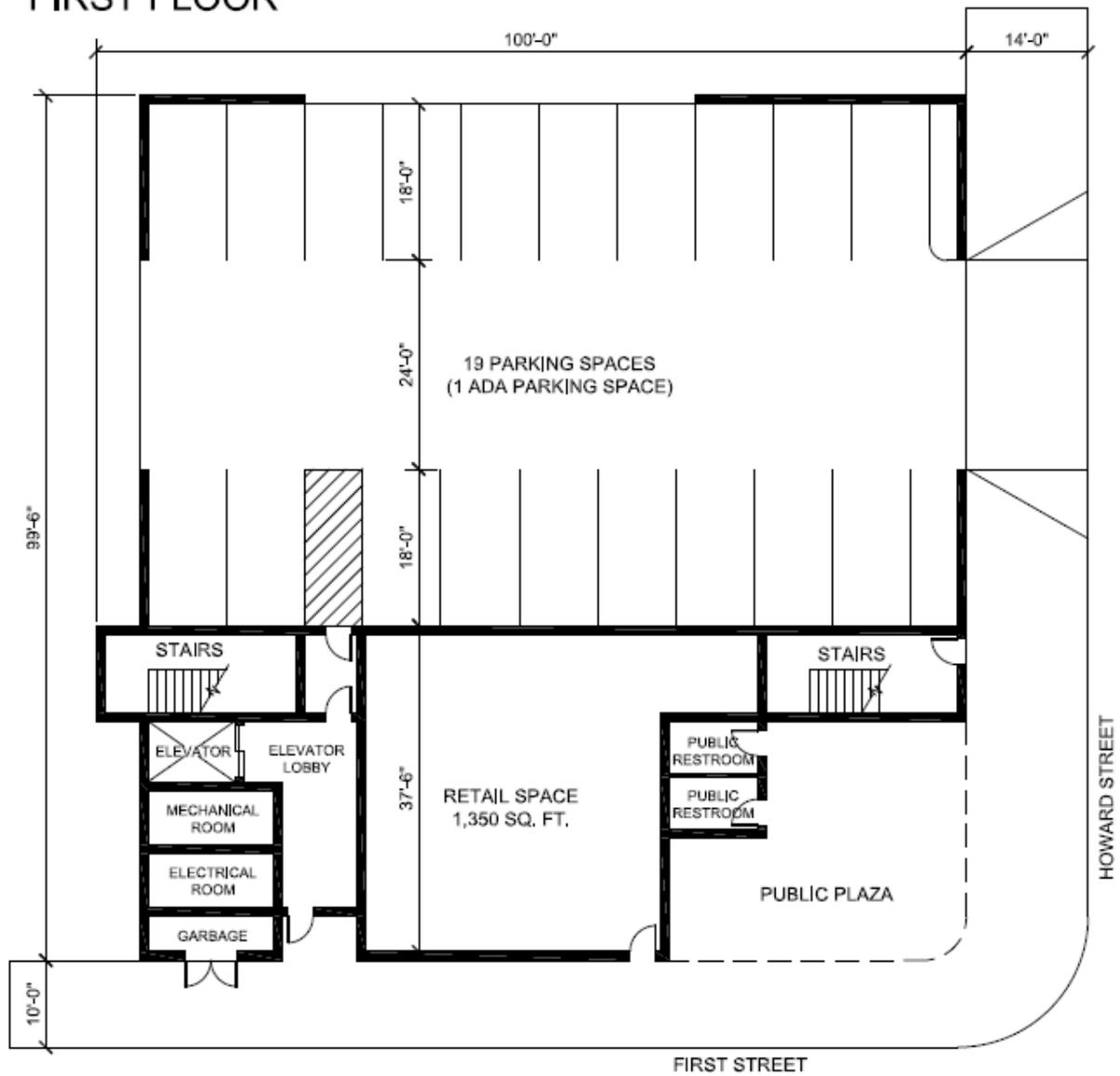


Source: Leland Consulting Group

<sup>6</sup> Assumes a market rate of \$21 per SF, NNN. The pro forma is feasible at a rent of approximately \$30 per SF, NNN.

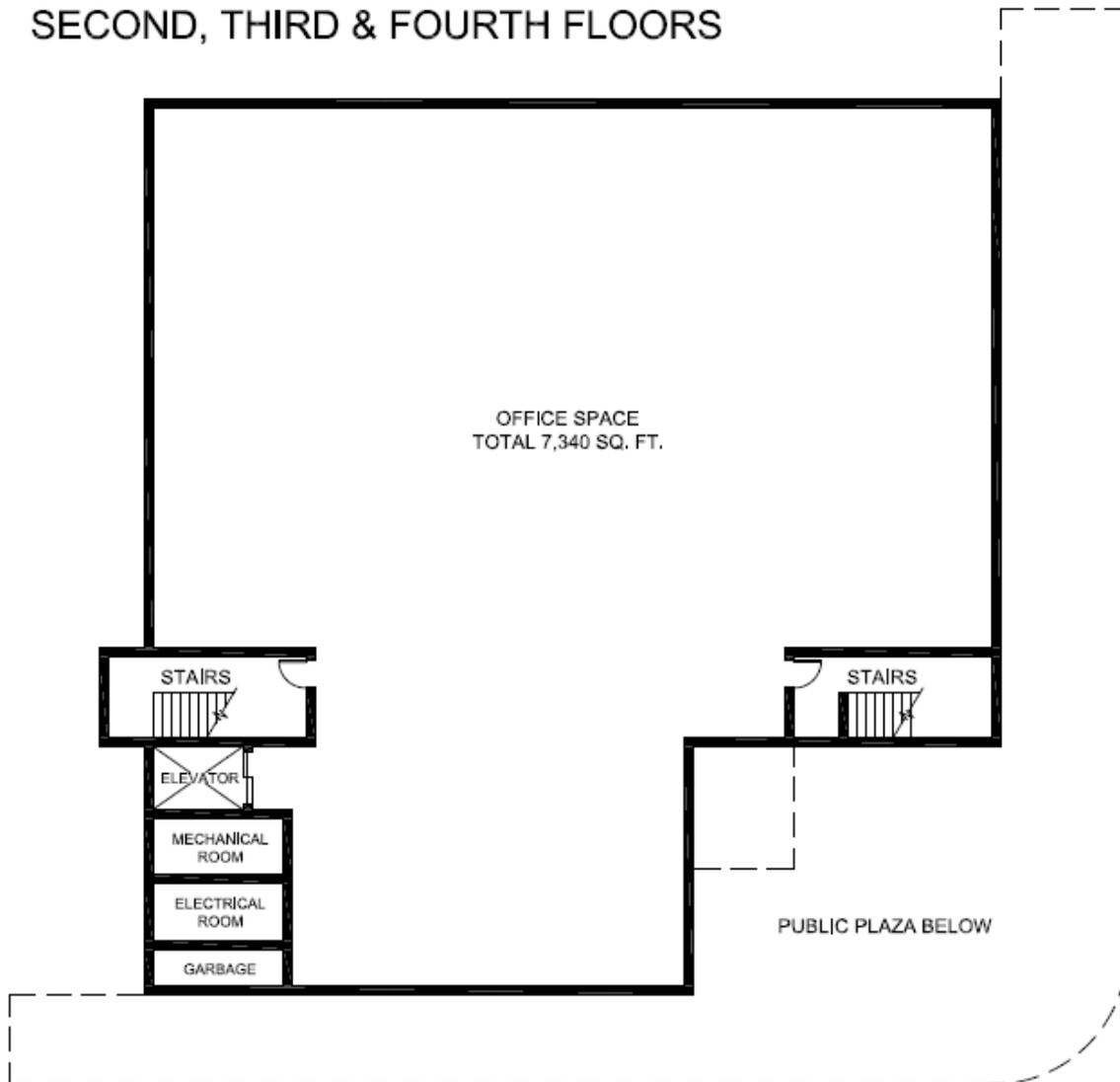
Figure 16 - Office Option, First Floor

### FIRST FLOOR



Source: Greenworks

Figure 17 - Office Option - Second and Third Floors<sup>7</sup>



Source: Greenworks

<sup>7</sup> The floor plate shows more than 7,000 SF rentable office space. Given the depth and width of the space it's assumed that an atrium and skylight would be necessary in the center of this space and would be deducted from the Rentable Building Area (RBA). Without a skylight, the center of the floorplate would be unreasonably dark.

## Residential Mixed Use Option

The residential mixed-use option is the most intriguing of the three options analyzed in this study. Newberg's housing demand is strong and is expected to remain steady for the foreseeable future. Average residential rents, however, continue to be lower than is typically necessary to warrant new construction.

This option considered a four-story building with three floors of rental apartments over a ground floor of parking and retail space. Two residential mixed-use options were considered. One option features a small corner plaza at the intersection of East First Street and Howard Street. The plaza feature is intended to create a small gathering space for retail patrons to the building. The plaza does, however, eliminate space above for rental units that would otherwise be located in that corner of the building. Removal of these units affects the building's cash flow noticeably. The second option removes the plaza and replaces both the residential units above and adds retail space on the first floor where the plaza would otherwise be located.

While this option for development is not an immediately obvious profit maker, it appears closer to feasibility than the other two options and is worth deeper consideration.

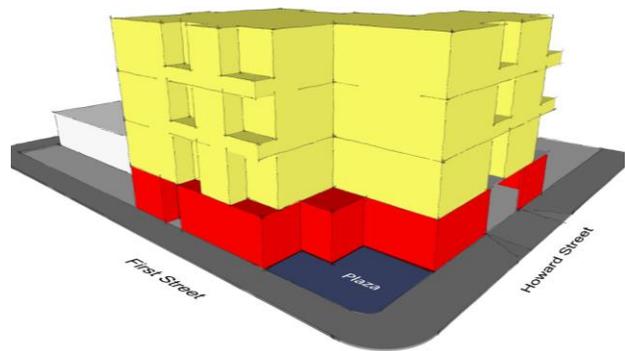
The key to financial feasibility in this scenario is for the apartment rents to be high enough so as to support the building's construction. As previously discussed, apartment rents in Newberg hover around \$1 per square foot per month<sup>8</sup>, and the top of the market is around \$1.25 per square foot per month. In order for this form of construction to be generally feasible, rents need to be at least \$1.50 per square foot per month. Gross monthly rents, as opposed to rents on a per square foot basis, are also worth considering, because this is how consumers typically think about their housing budget. Gross monthly rents in Newberg are typically between \$800 to \$1,100 a month and top out at \$1,400 for apartments. Due to these market realities, this analysis assumes a rent of \$1.75 per square foot per month (approximately \$1,200 to \$1,300 per unit per month) to be the highest possible rent achievable and is used in the pro forma analysis.

At a first pass, feasibility is not easily achievable. A rent of \$1.75 per square foot per month does not yield enough cash flow to support construction. The first option, with the plaza and fewer apartments, has a negative residual land value similar to the office option. The second residential option, without the plaza and more rental apartments, is, out of all the options, the development program closest to feasibility. This option still yields a negative residual land value, but fine tweaking of the development program and modest gap financing could get this option to be feasible. Furthermore, as Newberg's population continues to grow and housing demand increases rents will incrementally increase; this development option may not work in today's market, but could at some point in the near future.

**Figure 18 - Residential Mixed Use Full Buildout Sketch**



**Figure 19 - Residential Option Massing Model**



<sup>8</sup> \$1 per square foot *per month*

Residential Option 1 Assumptions (with Corner Plaza)	
Building Size	24,194 Gross SF
Rentable Spaces	18 Apartment Units 1,350 Retail Rentable SF
Rents	\$1.75 per SF per Month Modified Gross Residential Rent \$18 per SF NNN Retail Rent
Number of Parking Spaces	19 Ground Floor Internal Parking Spaces



Figure 20 - Residential Option 1 - Residual Land Value Per SF



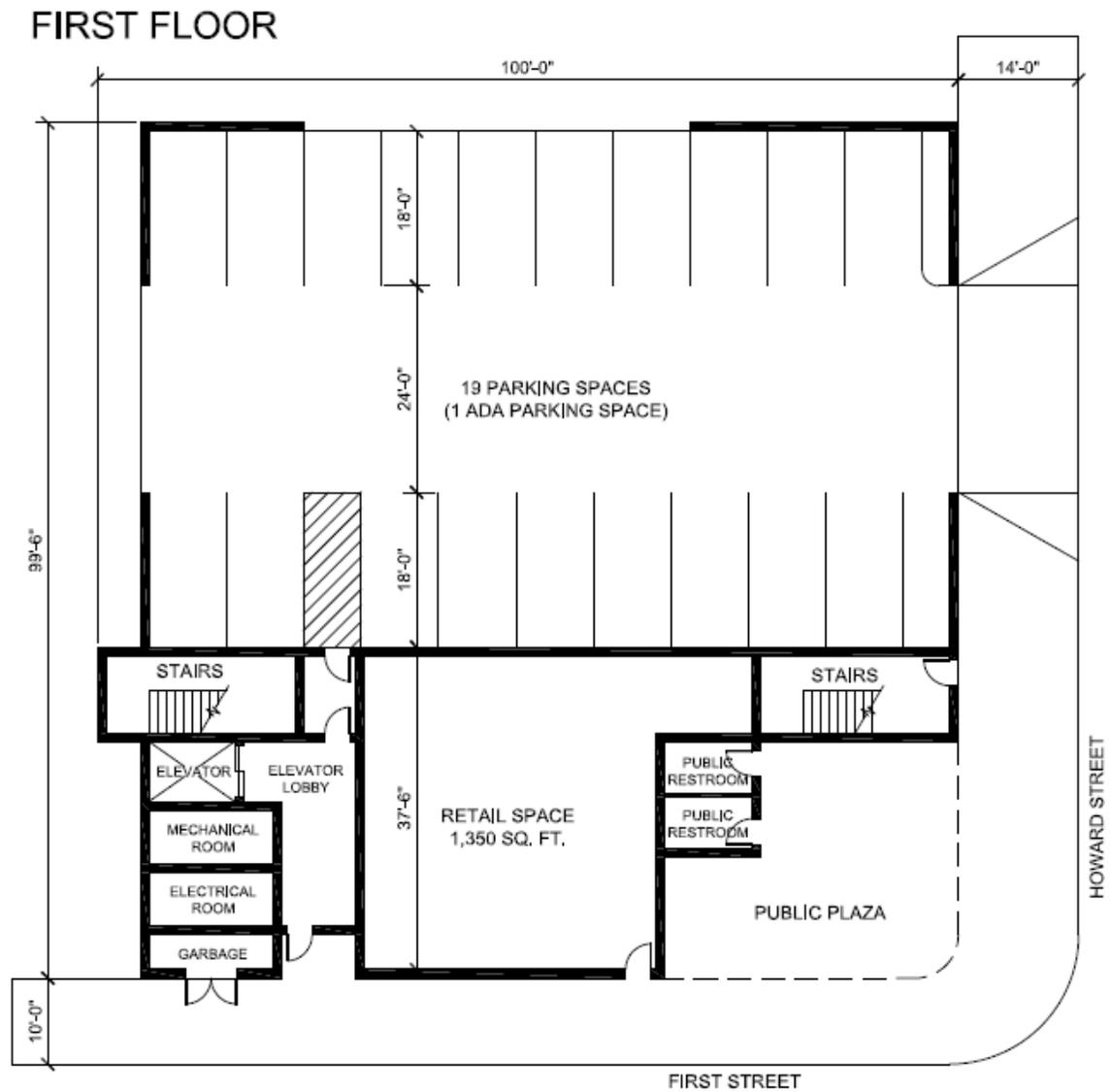
Residential Option 2 Assumptions (without Corner Plaza)	
Building Size	26,420 Gross SF
Rentable Spaces	21 Apartment Units 2,400 Retail Rentable SF
Rents	\$1.75 per SF per Month Modified Gross Residential Rent \$18 per SF NNN Retail Rent
Number of Parking Spaces	19 Ground Floor Internal Parking Spaces



Figure 21 - Residential Option 2 - Residual Land Value Per SF

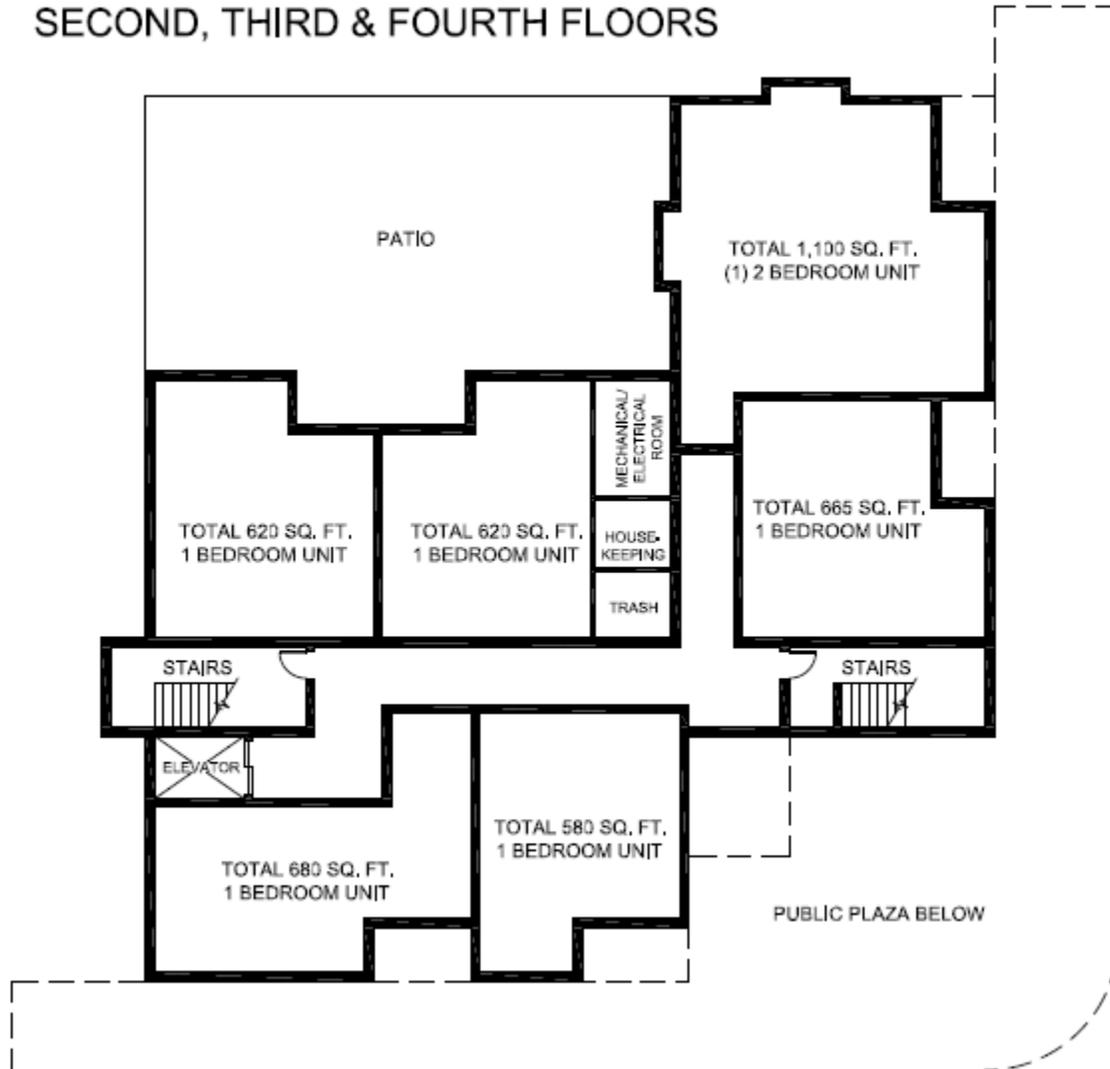


Figure 22 - Residential Option 1, First Floor



Source: Greenworks

Figure 23 - Residential Option 1 - Second, Third, and Fourth Floors<sup>9</sup>



Source: Greenworks

<sup>9</sup> Residential Option 2 has similar floorplates to Option 1, but with retail replacing the plaza and residential units replacing the area above the plaza

### Making a Residential Mixed Use Project Work

In this residential mixed use analysis, the financial models have shown that this building type is not outright feasible, although this development program is the closest to feasibility of the three option types analyzed. If Newberg rents were around \$1.90 to \$2.00 per square foot, the second residential model would be financially feasible. Given how close to feasibility this residential mixed use option is, it's worth considering ways of making this option pencil out. The following ideas could turn this development option from not feasible to feasible:

- Gap financing – While these residential options are not outright feasible they are close to feasibility. A public/private partnership whereby the city invests in the development could enable a private development to be feasible. Gap financing can take many forms, including for example land value reduction, Vertical Housing Tax Credits, tax abatement programs, impact fee deferrals or waivers, grants, loans, or other public financing tools.
- Relaxation of parking standards – Requiring parking on the site comes at a great cost. Reducing or eliminating parking requirements could make the residential development option feasible. In practice, however, this idea may be more of a challenge to marketability than a zoning concern. Downtown Newberg may not be transit rich enough to support apartments without parking.
- Addition of extra units – As was seen in the difference between the two residential options considered, the addition of extra rental units can change a development's cash flow considerably. A reconfiguration of the building to allow for more units could tip the scales towards feasibility. Eliminating onsite parking could also help make a more efficient floorplate and allow for more units.

## Feasibility Summary

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This case study set out to analyze the feasibility of development on the subject site, 'the Butler Site.' The site is primarily constrained by its small size, but also suffers from limited exposure, and, at the current time, significant traffic noise.

The feasibility analysis considered three different development programs for the subject site. These programs were identified through analysis of the downtown Newberg market and via direction from the NDIP Project Management Team and Project Advisory Council. The three development programs are;

- A hotel with limited ground floor retail and internal parking
- Mixed-use office, with two floors of office space above a first floor with retail and parking
- Mixed-use residential, with three floors of rental apartments above a first floor of retail and parking

The analysis showed that none of these options are outright feasible in today's market, but that a mixed-use residential project is the closest of the three options to feasibility. Should the City decide to pursue this development type, gap financing, a relaxation of parking limits, a denser building design, or a combination of these incentives would be necessary for the project to become feasible.

## Recommendations

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### Other Options to Consider

This case study illustrates the difficulty in today's market to develop the Butler Property with an intensive development program. Despite the infeasibility of the development options analyzed here, there are other development options for the City to consider.

The idea of a catalyst site is to initiate the momentum of private investment in an area. If one of the options presented here were to be constructed, the argument goes, then other private investment would follow. It appears, however, that site and market constraints pose major challenges for development on the subject site. There are other options that the City can consider on the site that could lead to increased activity in the downtown core. For consideration:

- Creative Co-Working and Micro-Business Space – The site's location lends itself to a gathering spot in the downtown area. A public square or plaza on the site, supported by limited co-working and micro-business space could activate this important corner in the center of downtown. This option would be focused on creating a 'there there,' that would be an activity generator for downtown. If carefully programmed, marketed, and managed, this public gathering spot could become an elemental place making building block for the area, creating a "wow factor" for downtown and lead to further interest in downtown development.
- Student housing – As seen in the analysis, developing market-rate housing on the site would be a challenge. It should be noted that George Fox University is currently examining its need for student housing, as opportunities on campus are being outstripped by demand. Student housing may be able to circumvent some of the challenges that typical housing would face. Rents for student housing typically are high on a per-square-foot basis, as student housing is typically leased on a per-bed basis. Parking may not be as much of an issue for full-time students that may not have a car or may even prefer to not have a car. And traffic noise may be less of a concern for students than market-rate housing consumers. Furthermore, students living downtown would lead to additional business opportunities and activity in the downtown area.



### Recommendation

The following options appear to be the best paths forward for consideration at this time. We recommend that the city pursue one of the following options for the Butler Site.

- Market Rate Housing – If it's the goal of the City pursue one of the mixed use options analyzed through this study, then a residential mixed-use property is the option most likely to succeed. As the analysis showed however, a mixed use residential project will require significant gap financing in order to pass the feasibility test.
- Activity Generator with a Focus on Place Making – As outlined above, the City could underbuild the site with limited retail/restaurant/micro-business spaces and a plaza or other type of open-air gathering space. By limiting construction to one or two stories, focusing on small, easier leasable spaces, and creating an attractive and central location for gatherings and special events, the City could create an

active node at the heart of the downtown. This attractive urban “living room” could build momentum and interest in downtown Newberg, leading to further private investment and perhaps even incubating future Newberg businesses.

- **Student Housing** – Student housing at the site would bring more residents to the center of downtown, leading to more foot traffic passing by area businesses and adding to downtown’s activity level. George Fox University is growing its student population and is an engaged partner in the Newberg downtown community. A public/private partnership between the City and the University could be a success for both parties, along with other downtown stakeholders.
- **Provide Off-Site Parking** – As the analysis showed, providing any amount of on-site parking greatly constrains what can be done on the site, as it shrinks the buildable area of an already-small site. If the City were able to provide all required or needed parking on a nearby site, each development option may be able to be designed more efficiently so that feasibility is improved. Studying this option may be worthwhile. In either case, providing parking can be a valuable way to meet the gap financing needs of any scenario.

It is recommended that the City take an additional step to explore these options in depth. This additional analysis could test feasibility of these options, as this study has done with the previous options, and also seek out community and development partners that could make a project a success on the site.

### Reality Check Meeting Input

In order to “check the reality” of the Butler Property Analysis and also to gain input and advice on the other concepts that are being put forth in the project, the consultant team and the City of Newberg held a “Reality Check Meeting,” with representatives from the development and financing community. A full summary of that discussion can be found in a companion piece to this report. Summarized below is the input regarding the Butler Property Analysis:

- The participants discussed the Butler Property and agreed that it is a suitable location for a development scenario that activates the core of the downtown area. Less focus should be on building-out the site, than using the property as an activity generator for downtown.
- One participant offered that a metric for success of the site should be, “bodies per day,” that is, count the number of people coming to the property each day to gauge success as an activity generator and catalytic development.
- Participants discussed the concept of, “highest and best use,” and opined that fully building out a site, especially in an evolving district like downtown Newberg, is not always the most appropriate development option for achieving community goals. Smaller, less expensive development options many times can achieve property and community goals without overleveraging public resources, one participant said.
- The Butler Property was described as too small of a site to support a new hotel development.
- **Less can be more** – Participants opined that the Butler Property, especially with its small size, would be better developed with a modest amount of improvements that would be focused on attracting more people to downtown, rather than programming the site with as much commercial and residential space as would possibly fit on the site.

## Appendix

### Residential Pro forma

<b>Project Description</b>			
Building Type			
Description		Residential Mixed Use (with Corner Plaza)	Residential Mixed Use (Without Corner Plaza)
Option #		<b>Option 1</b>	<b>Option 2</b>
<b>Site Attributes</b>			
Gross Site Size (SF)		10,300	10,300
Gross Site Size (acres)		0.24	0.24
Site Coverage		81%	81%
FAR		2.3	2.6
<b>Building Attributes</b>			
Stories		4	4
Level 1		6,920	6,920
Level 2		5,758	6,500
Level 3		5,758	6,500
Level 4		5,758	6,500
<b>Total GBA (Includes Internal Parking Area)</b>		<b>24,194</b>	<b>26,420</b>
<b>Commercial Rentable Space</b>		1,350	2,400
<b>Residential</b>			
Number of Total Units		18	21
Level 1		-	-
Level 2		4,265	4,870
Level 3		4,265	4,870
Level 4		4,265	4,870
<b>Total Residential RBA</b>		<b>12,795</b>	<b>14,610</b>
<b>Total Net Rentable Area</b>		<b>14,145</b>	<b>17,010</b>
Avg unit size (sf)		711	696
Dwelling units per acre		76	89
<b>Parking</b>			
Total Parking Stalls		20	20
Parking Stall Size Allocation		300	300
<b>Total Parking Stall Area</b>		<b>6,000</b>	<b>6,000</b>

## Newberg Core Catalyst Site Feasibility Study

<b>Gross Revenue</b>		Option 1	Option 2
<b>Retail Space</b>			
Retail Lease Rate (per SF per year, NNN)		\$ 18.00	\$ 18.00
Annual Retail Lease Revenue		\$ 24,300	\$ 43,200
<b>Residential</b>			
	<b>Avg Unit Size</b>	711 SF	696 SF
Rent per square foot per month		\$ 1.75	\$ 1.75
Average Gross rent per unit per month		\$ 1,244	\$ 1,218
Residential Annual gross rent		\$ 268,695	\$ 306,810
<b>Parking</b>			
Parking Lease Rate (per space per month)		\$ 50.00	\$ 50.00
Parking Annual Lease Revenue		\$ 12,000	\$ 12,000
<b>Potential Gross Income (PGI)</b>		\$ 304,995	\$ 362,010
Allowance for Vacancy (5%)		\$ 15,250	\$ 18,101
<b>Effective Gross Income</b>		\$ 289,745	\$ 343,910
<b>Operating Expenses as \$/SF Gross (Not Reimbursed)</b>		\$ 3.25	\$ 3.25
Operating Expenses as % of Income		27%	25%
Operating Expenses		\$ 78,607	\$ 85,839
Total Annual Expenses		\$ 78,607	\$ 85,839
<b>Net Operating Income (NOI)</b>		\$ 211,139	\$ 258,071
Capitalization Rate	6.25%	6.25%	6.25%
<b>Project Value</b>		\$ 3,378,218	\$ 4,129,129

<b>Construction Costs</b>		Option 1	Option 2
<b>Hard Costs</b>			
Podium Hard Cost per GBA SF		\$ 130	\$ 130
Upper Floors Hard Cost per GBA SF		\$ 110	\$ 110
GBA Cost Total		\$ 2,799,740	\$ 3,044,600
<b>Total Hard Costs</b>		\$ 2,799,740	\$ 3,044,600
Soft Costs (percent of hard costs)	30%	\$ 839,922	\$ 913,380
<b>Total Building Cost</b>		\$ 3,639,662	\$ 3,957,980
<b>TBC per SF</b>		\$ 150	\$ 150
<b>Gross Margin</b>	<b>10%</b>	10%	10%
<b>Minimum Gross Margin Expectation (10% of Value)</b>		\$ 337,822	\$ 412,913
<b>Residual Land Value</b>		\$ (599,266)	\$ (241,764)
Land Value per sf		\$ (58.18)	\$ (23.47)
<b>Rounded</b>		\$ (60.00)	\$ (20.00)

## Office Pro Forma

<b>Project Description</b>		
Building Type		
Description		Office MU
Revenue Assumption		
Option #		
<b>Site Attributes</b>		
Gross Site Size (sf)		10,300
Gross Site Size (acres)		0.24
Site Coverage		81%
FAR		2.5
<b>Building Attributes</b>		
Stories		3
Level 1		8,591
Level 2		8,391
Level 3		8,391
Level 4		-
<b>Total GBA (Includes Internal Parking)</b>		<b>25,373</b>
<b>Retail Rentable Space</b>		<b>1,350</b>
<b>Office Rentable Space</b>		
Number of Total Units		19
Level 1		-
Level 2		7,000
Level 3		7,000
Level 4		-
<b>Total Residential RBA</b>		<b>14,000</b>
<b>Total Net Rentable Area</b>		<b>15,350</b>
<b>Parking</b>		
Total Parking Stalls		20
Parking Stall Size		300
<b>Total Parking Stall Area</b>		<b>6,000</b>

## Newberg Core Catalyst Site Feasibility Study

<b>Gross Revenue</b>		
<b>Retail Space</b>		
Commercial Lease Rate (per SF per year, NNN)		\$ 18.00
Annual Commercial Lease Revenue		\$ 24,300
<b>Office</b>		
Rent per square foot per year (Modified Gross)		\$ <b>23.00</b> SF
Average Gross rent per unit per year		\$ <b>161,000</b>
Office Annual Gross Rent		\$ 322,000
<b>Parking</b>		
Parking Lease Rate (per space per month)		\$ 50.00
Parking Annual Lease Revenue		\$ 12,000
<b>Potential Gross Income (PGI)</b>		
Allowance for Vacancy (5%)		\$ 17,915
<b>Effective Gross Income</b>		
<b>Operating Expenses as \$/SF Gross (Not Reimbursed)</b>		
Operating Expenses as % of Income		23%
Operating Expenses		\$ <b>78,117</b>
Total Annual Expenses		\$ <b>78,117</b>
<b>Net Operating Income (NOI)</b>		
Capitalization Rate		7.50%
<b>Project Value</b>		
		\$ <b>3,496,906</b>

<b>Construction Costs</b>		
<b>Hard Costs</b>		
Podium Hard Cost per GBA SF		\$ 130
Upper Floors Hard Cost per GBA SF		\$ 110
GBA Cost Total		\$ 2,962,850
<b>Total Hard Costs</b>		\$ <b>2,962,850</b>
Soft Costs (percent of hard costs)	30%	\$ 888,855
<b>Total Building Cost</b>		\$ <b>3,851,705</b>
<b>TBC per SF</b>		\$ <b>152</b>
<b>Gross Margin</b>	<b>10%</b>	10%
<b>Minimum Gross Margin Expectation (10% of Value)</b>		\$ 349,691
<b>Residual Land Value</b>		\$ <b>(704,490)</b>
Residual Land Value per SF		\$ (68.40)
<b>Rounded</b>		\$ <b>(70.00)</b>

## Hotel Pro Forma Details

<b>Butler Site</b>		
<b>Residual Land Value Model for Hotel</b>		
<b>Assumptions / Inputs</b>		
Limited Service Hotel		
Rooms		39
ADR		\$120
Annual ADR appreciation		3%
Stabilized occupancy		74%
Revpar		\$89
Years to stabilization		2
<b>Construction cost</b>		
Construction cost per room		\$145,000
Total construction cost per room		\$145,000
Construction period (months)		18
Investors Annual Return		9.9%
Investors Return on Equity		20.0%
Capitalization rate for reversion		8.00%
Loan to Value ratio		75%
Interest on Loan		5%
Amotization Period (years)		30
<b>Outputs</b>		
Residual Land Value		-\$422,988
Residual Land Value per SF		-\$41