

Cost Benefit Analysis Report

Courts and County Office
Building Relocation



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County of Albemarle, Virginia

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December 8, 2017

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This Section 1, Summary of Conclusions and Recommendations, is not intended to be an executive summary of the report and information contained herein. For a complete discussion of the analysis, we recommend that the reader review the report in its entirety. Below, we present our key findings and recommendations.

1. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The County of Albemarle is faced with a necessary capital expenditure to renovate and build new Courts facilities. This study has analyzed the quantitative (capital and operating costs) and qualitative implications of building or renovating new court facilities in Court Square, versus relocating the Courts to the Rio+29 area where their presence may have some potential to stimulate development and economic growth in the county. This study has also addressed the potential to relocate the County Office Building (COB) in addition or instead of the Courts to act as a catalyst for development.

The options studied are described below:

Options	Description
1) New Baseline – “Courts Downtown”	Reflects County’s current plan to renovate Court Square for the County Circuit Court and Circuit Court Clerks’ office and construct a new General District Court on the Levy site that would co-locate the City and County GD courts and their GD Court Clerks’ offices, in addition to the renovating the Levy Opera House for the Commonwealth Attorney’ office.
2) Reduced Levy Option – “Courts Downtown – no City Court”	Reflects a reduced scope for the New Baseline that would eliminate the City General District Court and the City GD Court Clerk’s offices.
3) Courts Relocation Option – “Courts Relocation”	Reflects relocation of the County Circuit and GD courts to a location in the county, presumed to be in the Rio+29 area.
4) County Office Building (COB) “COB Relocation”	Reflects relocation of the COB on a standalone basis and in terms of combining it with the New Baseline (where Courts stay downtown).
5) Courts <u>and</u> COB Relocation	Reflects the combination of Options 3 and 4 above.

One of the initial directions Stantec received was to consider the Rio+29 area as the presumptive location for a relocated Courts facility and/or County Office Building, in light of the concurrent work on the Rio+29 Small Area Plan that was underway. It became clear that structured parking would be critical to achieving the vision of a mixed-use, walkable urban center that would be consistent with the goals and initial concepts of the Rio+29 Small Area Plan. However, private development of structured parking is not a feasible endeavor in the Albemarle market due to the relative availability of land for and lower cost of surface parking, the lower density, the high parking ratios (which relate to the lack of mass

transportation options) and the lack of paid parking to offset cost of building structured parking.

Our feasibility analysis has shown that private development of structured parking is not likely in the foreseeable future. However, public provision of structured parking could send a signal to the private market about the commitment to and potential for future growth and urbanization. Moreover, in certain markets, government may be better positioned than the private sector to adopt implementation strategies for technologies such as self-parking vehicles that would represent a paradigm shift in the potential capacity of parking garages and their ability to facilitate and enhance mixed-use development. Regardless of the decision to relocate the Courts and/or the County Office Building, provision of a structured parking garage should be seen as a form of infrastructure investment and used as an economic development tool to spur economic activity.

With these broader guidelines about targeting the Rio+29 area and an understanding of the economics of building structured parking, our comprehensive analysis led us to the following conclusions and recommendations about the specific options above.

- Option 1 to stay downtown was the least expensive option for the Courts both in terms of capital cost and operating costs, but it offers little if any benefit in terms of economic growth accruing to the county. The same conclusions are drawn for Option 2. Given the limited benefits of a Courts relocation, the County could pursue other economic development strategies to boost development elsewhere in the county, such as providing incentives for small businesses and promoting the County to attract new employers; but these strategies could occur regardless of where the Courts are located.
- Option 3 to relocate the Courts, would be more expensive than Options 1 and 2, both in terms of capital cost and operating costs, but it has some potential to stimulate development. We do not expect the Courts to generate a great deal of buying power that could support a feasible amount of retail and restaurants due to the limited number of employees and visitors and the number of law firms and support services that would relocate. As firms and organizations consider their location for a host of other reasons, some may decide to move, depending on their existing lease terms, the cost of moving, the nature of the bulk of their business (County courts versus City courts), where their clients are located, how technological advances affect their productivity and where their employees live.

The Courts could, however, have a placemaking benefit if the County were to utilize the Courts as an important symbolic anchor, which could attract a modest amount of development, and this possibility should be studied further. The parking garage that would need to be provided could play an even greater role than the Court itself, in helping to support mixed-use development.

The potential of litigation over whether a public referendum vote is required to relocate the Courts could limit prospects for a public-private partnership involving the Courts, discussed further below.

- Option 4 to relocate the County Office Building (COB) could be a more compelling way to generate more development impact than relocating the Courts, but it would come with higher capital cost than Option 3 when one takes into consideration that the County would still need to pay for a new courthouse. The capital cost is partially offset

by savings on operating costs of Option 4 (the COB) and the comparatively high operating costs of Option 3. Some of the positives for stimulating development include a) greater buying power given an estimated 450 employees plus visitors, b) a better fit with the mixed-use program—retail could be developed on the ground floor of the COB, c) the County as a credit tenant could make the financing of the blended development project easier and more cost-effective and d) the parking structure could help the rest of the development.

The cost to relocate either of the Courts or COB into the county is not insignificant, but this should not deter the County in attempting to explore ways that a public-private partnership (P3) could transfer costs to the private sector under Option 3 (Courts Relocation), Option 4 (COB Relocation) and Option 5 (Courts and COB Relocation). To mitigate the cost impact, a P3 structure should be explored to ensure that the County has not limited the tools available in the market place. The rationale for a P3 structure is summarized below.

- The County does not control a site of sufficient scale in the Rio+29 area or nearby that could accommodate a significant mixed-use development and one or both County facilities considered in this study. Our conceptual studies show that a modest degree of development could be expected and that for best results, the public facility(ies) and the mixed-use components would need to be developed as one project. However, most of the potential sites identified were sufficient for only one of the buildings integrated into a mixed-use development but insufficient for both buildings and a mixed-use development, assuming a reasonable amount of density and height constraints.
- The cost of site acquisition in the Rio+29 area would be prohibitive and therefore, the County would need to rely on private property owners to provide such a site. We would be concerned about the County buying a site and then selling it to a private developer to develop through a P3 process. There is significant risk that there may not be any developers interested. Stantec believes there may be difficulty locating both facilities in conjunction with a mixed-use development.

Stantec recommends soliciting P3 developers working with landowners to offer their property to develop the combined public facility integrated with mixed-use development. In order to determine the likelihood of engaging private property owners into a P3 project with the County, we believe it is important to reach out to property owners to discuss their interest in the concept in much greater detail than we have been able to in the scope of this study. A premarketing exercise to property owners and potential developers would aim to gauge development interest, understand the private market's outlook for Albemarle and discuss a vision for mixed-use development.

We recommend a 6-month period for detailed discussions with property owners and P3 developers to see how interested they are in one or both County facilities (Courts and COB), and other important issues that would need to be resolved in order for a development to go forward. Within this Pre-marketing Period, we would also reach out through a Request for Information (RFI) or Request for Expression of Interest (RFEI) process.

2. OVERVIEW AND UNDERSTANDING

Albemarle has been grappling with how to plan for its courts for at least a decade, but the issue has been seen in a broader light over the past year in the context of the County's FY17-19 Strategic Plan which highlighted the need to lay a stronger, more sustainable foundation for long-term growth. A few of the long-term strategic goals focus on infrastructure investment, thriving development areas and economic prosperity. Therefore, it is important to consider the degree to which an inevitable and necessary capital expenditure for the County courts could be treated as an investment opportunity towards the future growth of the County, with the potential to act as a catalyst for new private development. In this report, we have analyzed the advantages and disadvantages of renovating and building new county court facilities in the Downtown versus building court facilities in the county. This analysis has included comparing capital costs and annual operating costs for each option and considering the potential for catalyzing development in the county for the option located in Rio+29 area. We have also analyzed the potential of relocating and consolidating County administrative offices in a new County Office Building (COB) to be built in the Rio 29 area. A new COB could be in addition to locating the Courts in Rio 29, or could be located there instead.

Our objective is to provide information necessary for the County of Albemarle Board of Supervisors to determine which of the options we have presented is likely to best meet the County's goals.

Courts Facilities

The General District Court and Circuit Court of the County of Albemarle are operating in inadequate facilities in the historic courthouse in Court Square, Charlottesville. While the population of the City has remained relatively constant, the County has seen significant population growth, which is expected to continue resulting in a projected increase in the County courts' caseload. Increased caseloads will require increased capacity in the county's court facilities. Further, the existing court facilities are inadequate by contemporary standards and by the Virginia Courthouse Facilities Guidelines established by the Supreme Court of Virginia. The current buildings are not ADA compliant, have security gaps with multiple entrances and have non-segregated circulation paths between the general public, prisoners and judges. Additionally, the older facilities lack technology and other conveniences such as sufficient parking accommodation.

Much thought and study has gone into analyzing numerous options. The County engaged Moseley Architects, a prominent architectural firm with deep experience in designing courthouses to study these options with the goal of devising an economical plan that meets the Courts' needs. Initially, plans focused on adapting and expanding the adjacent and historic Levy Opera House as well as renovate the existing court building. Since the initial studies, Moseley has investigated other options in Court Square. Moseley's conceptual plans for the courts has previously been presented to the Board of Supervisors and attached to Stantec's Courts Program Analysis.

We have also worked with Moseley to define a courthouse option that could be developed in the Rio+29 area as part of a larger mixed-use development, where the courthouse might serve as a catalyst or anchor for such development.

County Office Building

A new consolidated County Office Building was also evaluated for its potential to serve as a catalyst for new development in the county. The current COB is located in a prime location in downtown Charlottesville, where land for development is scarce. The 401 McIntire Road building has been converted from a high school to its current use as the county's administrative offices. While the building is relatively well maintained for its age with reliable systems, the interior layout of the building is highly inefficient by today's space allocation standards. Furthermore, there are advantages to consolidating the departments of Housing and Social Services, currently located in the 5th Street public safety building, with the county departments in the McIntire building. This would free up space in the 5th Street building for other public safety needs. It is also posited that of the various County assets located in the Downtown, 401 McIntire and the lot it sits on are in a highly desirable location with unused development rights that if sold, could garner proceeds to help offset the cost of a new COB in the county.

The Options

This report considers the quantitative analysis and pros and cons of what, to-date, has been called "Option 1" or the "Downtown Option," referring to the renovation and expansion of courts in downtown Charlottesville, and "Option 5" or the "Relocation Option," referring to the possibility of relocating the Courts (and/or the County Office Building) to a location in the county.

In the course of our analysis a second option for the Downtown Option was considered, we have relabeled these options as Option 1 or "New Baseline," Option 2 or "Reduced Levy," Option 3 or "Courts Relocation," and Option 4 or "COB Relocation." We summarize these options below:

Options	Description
1. New Baseline – “Courts Downtown”	Reflects County’s current CIP for renovation of Court Square for the County Circuit Court and Circuit Court Clerks’ office and construction of a new General District Court on the Levy site that would co-locate the City and County GD courts and their GD Court Clerks’ offices, in addition to the Commonwealth Attorney’s office in a renovated Levy Opera House.
2. Reduced Levy Option – “Courts Downtown – no City Court”	Reflects a reduced scope for the New Baseline that would eliminate the City General District Court and the City GD Court Clerk’s offices.
3. Courts Relocation Option – “Courts Relocated”	Reflects relocation of the County Circuit and GD courts to a location in the county, presumed to be in the Rio+29 area.
4. County Office Building (COB) “Relocation Option”	Reflects <u>both</u> the New Baseline (where Courts stay downtown) and the relocation of the County Office Building in the county, presumed to be in the Rio+29 area. Within our Cost Analysis, we show the COB Relocation on a standalone basis and show it on a cumulative basis with Option 1, 2 or 3. In other words, the option of relocating the COB is additive to whichever decision is made for Courts.

Rio+29 Small Area Plan

The Rio+29 area became the presumptive area for the relocation of the Courts or the COB, as a Small Area Plan initiative was already underway to reimagine what the commercial corridor could become. That plan might provide for new roadway alignments, infrastructure, and zoning to allow a transformation to take place on these retail properties, as well as other land adjacent. The County’s ability to use land use and zoning regulations could be one of the most cost-effective tools at its disposal to unlock value in the Rio+29 area.

Increasingly across the country, there is a trend towards walkable mixed-use neighborhoods where people live, work and play with retail at the base of office or residential buildings and streetscapes and improvements that encourage walking and bicycling rather than driving. This fundamental vision of a walkable, denser community is the base assumption for several of our development scenarios.

In addition to the planning initiatives to potentially rezone the predominantly commercial and industrial area, there has been concern about the financial viability of the large mall properties and retail strip malls in the Rio+29 hub. The County had expressed concern that Route 29 might be losing its luster and new forms of development should be considered. Nationally, brick-and-mortar retailers have been losing market share to on-line retailers. Two major national department store chains, J. C. Penney and Sears, located along Route 29 at Fashion Square Mall, are in serious financial trouble.

3. METHODOLOGY

Costs

We first estimated the cost to the County of the various renovation and relocation options. We estimated the capital cost for each building option and estimated recurring annual operating costs over the life of the building. This allowed us to compare differentials between the options for both capital costs and annual operating costs. It is often difficult to compare the financial impact of capital costs (which occur one time over the design and construction period) and annual operating cost (which occur every year for the life of the facility). Therefore, we have used a financial tool, capitalization rates, to determine the value of a stream of annual expenditures or annual savings. It is then possible to add that value of annual expenditure to or subtract the value of annual savings from the Capital Cost to determine the financial impact of one option from another. The County typically uses a 4.5% capitalization rate (or cap rate) to analyze the value of a stream of cash flows.

Key steps of the analysis included first, examining differentials in the cost impact on the county of the Courthouse locational options, as well as considering the financial implications of relocating the County Office Building.

Benefits

We then considered the benefits in terms of the degree to which additional development might likely occur with the County's investment towards a new court facility or administration building in the county. To this end, we defined the type of development program and scenarios that we believe have potential to occur based upon market-driven factors and financial feasibility of the development scenario. We also consider whether it is more beneficial to locate the Courts or the COB, or both, to the County.

Qualitative Criteria

In addition to our quantitative analysis, consideration should also be given to the qualitative criteria for relocating the Courts and/or County Office Building. The Board has evaluated the priority of these criteria relative to each other, and we have applied these criteria in looking at each of the options before us. The Board of Supervisors can then weigh whether qualitative differences outweigh the cost differential.

Development Scenarios

Our analysis used development pro formas to examine the financial feasibility of development buildout scenarios and economic development opportunities along the Rio+29 corridor on private property. The pro formas tested medium or moderate and high density scenarios with different mixes of product type. Lower levels of development were tested but quickly deemed to be infeasible and not studied further because the yield to the developer was too low. In each of the medium scenarios tested, we included 88,000 SF of office space representing the Courts and 160,000 SF representing space for the County Office Building to see how those scenarios impacted the returns to the developer. We did not subject our hypothetical development to meeting zoning requirements in the area, as they would not likely allow a mixed-use development by-right, but the premise is that special

permit applications could be obtained, and the Rio+29 Small Area Plan effort underway may result in zoning classification changes.

We created a comprehensive development pro forma to test hypothetical development scenarios for the Rio+29 area. The goal of this analysis was multi-purpose: to assess the capacity for private, mixed-use development on a hypothetical site utilizing density and absorption assumptions and to understand the impact of locating the County Office Building and/or County Courts as a part of such development.

The approach to the development pro forma included inputting a series of assumptions into a model to be able to generate anticipated development costs, and project cash flows. Many of our assumptions are based on market research and market conditions. These assumptions and our rationale for them are explained in more detail in Appendix C. These cash flows provide the necessary outputs that a developer might look to in order to decide whether to pursue such a project.

The financial model tested the two development scenarios providing a development budget, projected operating pro forma with 10-year cash flow for the project, and projected returns to the developer, for each scenario.

Fiscal Impact Model & Analysis

In addition to this Cost Benefit Report, a fiscal impact modeling exercise has been running concurrently in addition to this Cost Benefit report. It will provide a snapshot of the impact of these options on the County's general fund balances and reserve targets. In addition, it will demonstrate the impact of moderate and high development buildout. The results of that report will be available subsequent to this report and delivered in time for the Board's consideration before the end of the year. The Fiscal Impact Model reflects the County's adopted budget for FY 18-19 and layers on the capital costs and ongoing costs of each of the options discussed herein.

4. COSTS ANALYSIS

Costs for the four options being evaluated herein were derived from the Courts Program Analysis, which are summarized in the table "Summary of Courts Options 1, 2 and 3" below, and from the County Office Building Program Analysis, which are summarized in the table "Summary of COB Option 4" below. The term "Net Project Costs" used during the Program Analysis phase of our work is being referred to as "Capital Costs" herein.

Capital Costs – Courts

In comparing the three Courts options, **Option 1. New Baseline** has the highest Total Project Costs of \$44.1 M, attributable to the premium to construct in the Downtown location, on a historic site, and with the larger program and square footage indicated. However, Net Project Costs are the lowest at \$36.8 M, after deducting sale proceeds and a City Contribution of \$6.9 M.

Option 2. Reduced Levy Option, which has a reduced size General District Court of 77,400 GSF at the Levy site, eliminates the City GD Court and Clerk components of the program but can still accommodate the County's GD Court needs and allow room for expansion. The Total Project Cost of \$38.2 million reflects the smaller scope of the project as compared to the New Baseline, but the Net Project Cost to the County is higher because there is no City Contribution as the City component of the plan is eliminated.

Option 3. Courts Relocation, newly constructed at 88,000 GSF, would be smaller than the New Baseline but larger than the Reduced Levy options. This scheme is larger than the Reduced Levy site because it is assumed to be developed on a "greenfield" and not constrained by existing buildings and site conditions; this results in a larger lobby, larger-sized courtrooms and more generous holding and security areas. It would be the most expensive on a Capital Cost basis, ranging from \$46.9 million to \$51.5 million, because the County will have to pay for the cost of acquiring a site and providing more structured parking, particularly if the target location is Rio+29 with the goal of creating a walkable environment.

Summary of Capital Costs – Courts Options 1, 2 and 3

	Option 1 New Baseline	Option 2 Reduced Levy	Option 3 Courts Relocation
Size	91,900 SF	77,400 SF	88,000 SF
Total Project Cost	\$44.1 M	\$38.2 M	\$41.9 M
+ Site Acquisition	-	-	\$2.1 M - \$6.7 M
+ Structured Parking	to be negotiated w/City	to be negotiated w/City	\$9 M - \$9.6 M
- Sale Proceeds or Payment	(\$0.5 M) – Proceeds from sale of Jessup	\$0.3 M – For City share of Levy	(\$3.1 M) – from sale of Jessup, Levy & 7 th Street Market
- Credits (City Contribution)	(\$6.9 M)	\$0	\$0
Capital Costs	\$36.8 M	\$38.5 M	\$46.9 M - \$51.5 M

Operating Expense – Courts

In addition to the capital costs, we estimate the anticipated annual operating expense under each of the court options and express this as a differential or net operating expense or savings to the County over what is currently budgeted for the Courts. A summary of the order of magnitude of these costs is shown in the table below.

Summary of Net Operating Expense – Courts Options 1, 2 and 3

	Option 1 New Baseline	Option 2 Reduced Levy	Option 3 Courts Relocation
Courts Facilities Opex (\$2 psf additional)	\$183,800	\$154,800	\$176,000
– City Share of Facilities Opex (20%)	(\$40,436)	n/a	n/a
+ County's Share of Garage Opex (assume 300-spaces)	\$50,000	\$50,000	\$150,000
+ Sheriff's Office (+5 deputies)	n/a	n/a	\$565,400
+ Commonwealth's Attorneys (+2 attys)	n/a	n/a	\$170,000
Net Operating Cost	\$193,364	\$204,800	\$1,061,400

Options 1 and 2

Under the New Baseline and the Reduced Levy option, (Downtown options) the net operating cost is \$193,400 and \$204,800, respectively. The majority of these costs represent the additional expense of \$2 per square foot (psf) to operate a new courts facility, assuming a cost of \$6.14 psf for courts facilities, according to the IFMA September 2017 Operations and Maintenance Benchmarks, less the existing costs which are estimated by County staff to be \$4.10 psf. It should be noted that current staffing costs related to the Courts are imbedded into the County's current capital plan. The remainder of the costs represent an estimate of the County's pro rata share of the operating expenses for the City's to-be-constructed garage of approximately 300 spaces.

Option 3

Under Option 3 Courts Relocation, there is an additional \$1.06 million of projected net operating costs compared to current operating costs: \$326,000 for the court facilities and garage and \$735,400 for additional staffing. There are higher parking garage operating expenses than in the downtown option to reflect that the County would be fully responsible for a larger, 300-space parking garage in the county. Based upon stakeholder interviews conducted as part of the Adjacency Study the Sheriff's Department has indicated it would need five deputies to cover additional security screening, in-custody transport and in-courtroom monitoring, primarily due to the Juvenile and Domestic Relations (J&DR) Court remaining in the downtown and having security operations in two disparate locations. Additionally, the Commonwealth Attorney's office indicated they would need two additional Assistant Commonwealth Attorneys to adequately cover the Circuit Court, two General District Court locations (including the City's GD Court due to the dual-jurisdiction) and the J&DR court.

These personnel needs have not been vetted, but we have accepted them as being a realistic and responsible assumption. The NCSC Courts Location Operations Impact Review Report dated October 28, 2017 states the case that was made by the Sheriff's Department and the Commonwealth Attorney's representative, both of which appear reasonable and likely. In the case of the Commonwealth Attorney's office, it is not clear to what extent attorney salaries are shared or paid for by the State, but we have assumed that the County would be burdened with 100% of this cost. NCSC proposed a greater use of technology such as virtual conferencing for defendant appearance hearings could reduce the manpower needs and mitigate the cost impact. Whether these personnel needs are indeed reasonable or excessive, and whether technology could sufficiently mitigate the need and therefore the costs, would have to be investigated further should the County decide to relocate the Courts.

For Option 4, County Office Building Relocation, we will discuss its operating costs under the subsection titled "Option 4 Cost Analysis" below.

Capitalized Cost Comparison – Courts

The Net Operating Costs represent an annual cost that recurs each year. It can be helpful for analysis to determine the value of a stream of recurring annual cash flows, whether they are costs or savings. We can then more easily understand the financial implications of both capital cost and operating costs together. For example, a project may have a high capital

cost but it may result in large recurring savings. We then ask the question, What is the value of those savings and is it a good return on the Capital cost investment? We compared the capitalized values of the annual net operating cost or savings differential to Option 1. We derived the capitalized value of a series of annual cash flows. The capitalized cost is not a cash value but a valuation tool for comparing options. To calculate the value of the "Net Operating Cost," we use a 4.5% cap rate, below, the same rate used by the County's Finance department for FY 18-19, as recommended by its accountants. A summary table of results follows the narrative discussion.

We have established that the capital cost of Option 1 is \$36.8 M and the net operating cost is \$193,364 per year, summarized below, using a 4.5% cap rate. The capitalized value of the net operating cost of Option 1 is \$4.3 M.

Option 1 - New Baseline	
Capital Cost	\$ 36,753,400
Net Operating Cost	\$193,364
Capitalized Value of Net Operating Cost (Option 1)	\$4,296,978

Note: All lines shaded in below reflect a differential compared to Option 1.

Option 2, the Reduced Levy Option, has a higher net capital cost of \$2.2 million than Option 1 New Baseline.

The operating cost differential between Option 2 and Option 1 of \$11,436 has a capitalized value of \$254,000.

Option 2 – Reduced Levy Option	
Capital Cost	\$39,020,000
Net Capital Cost (Option 2 vs Option 1) Differential	+ \$2,266,600
Capitalized Value of Incremental Operating Cost (Option 2 vs Option 1)	\$204,800
Incremental Operating Cost (Option 2 vs Option 1)	+\$11,436
Capitalized Value of Incremental Operating Cost (Option 2 vs Option 1)	\$254,133

Option 3, the Courts Relocation Option, reflects a capital cost premium of \$12.4 million compared to Option 1.

The additional operating cost for Option 3 (\$1.06 M) has a capitalized value of \$19.3 million, an indication of the high cost over time to the County of relocating. Of the three courts options described herein, Option 3 is the most expensive option from both capital and operational cost perspectives.

Option 3 - Courts Relocation	
Capital Cost (average estimate)	\$ 49,200,000
Net Capital Cost (Option 3 vs Option 1)	+\$12,446,600
Additional Operating Expenses of Option 3	\$1,061,400
Incremental Operating Cost (Option 3 vs Option 1)	+\$868,036
Capitalized Value of Incremental Operating Cost (Option 3 vs Option 1)	+\$19,289,689

In summary, Option 1 is the least costly, in terms of capital cost. Options 2 and 3 have a greater capital cost than Option 1; and Option 3 also has a greater operating cost.

Cost Analysis – Option 4 COB

Option 4 addresses a potential relocation of the County Office Building from its current location at 401 McIntire Road, and of certain departments occupying a portion of the 5th Street property, to a new location in the County. This so-called “Option” is not an alternative for the Courts, it is an additional strategy that could be explored regardless of what is decided about the Courts and could be subject to an entirely different timetable than that of the Courts decision. The question of moving the Courts and/or the COB to serve as an economic driver can conflate the two issues and ignore the true cost. It might be better posited as a question of where to locate the Courts and where to locate the COB, individually or together, for optimal economic impact to the county.

To address this, we first provide an estimate of the costs of a COB Relocation on a standalone basis to see the order of magnitude of that project compared to the current cost of the existing buildings. Second, we combine “Option 4 plus 1” to show that the true cost of pursuing Option 4 would include renovating Courts downtown. In other words, we add Option 4 and Option 1 to more accurately address the cost of moving the COB building. We selected the downtown option for this part of the analysis because it was the least expensive of the three Courts options, based on our discussion above. Finally, we combine “Option 4 plus 3” to reflect the impact of moving the Courts and the COB to the county.

Capital Costs – COB Standalone

In our COB Program Analysis, we estimated approximately 160,000 GSF would be required to fulfill the space needs of the impacted County departments, including room for growth and expansion in coming years, which is 30,000 GSF less than the 190,000 GSF occupied today in the 401 McIntire and the 5th Street locations.

Total Project Costs for a new COB was an estimated \$55.9 million which includes an allowance of \$3 million for site acquisition and a structured parking cost of \$9.6 million for a 480-space garage (160,000 SF x 3 spaces per 1000 SF). The County could expect around \$19 million in sale proceeds from the disposition of the McIntire building and site, based on a Broker Opinion of Value from CBRE. The Net Project Cost or standalone capital cost would be \$36.9 million.

Note that the current estimated capital costs for 401 McIntire is approximately \$3.1 million for the next five years.

Operating Costs – COB Standalone

Net operating expenses for a new COB facility located in the County are estimated at approximately \$747,000 per year, which would represent an operating expense savings of \$339,000 as compared to the estimated current operating expenses of approximately \$1,085,620 for 401 McIntire and a portion of the 5th Street buildings. We note that some expenses for the County's facilities are rolled up into single contracts, such as for landscaping or custodial services, and costs have been attributed to the buildings on a pro rata basis according to square footage. This may not be accurate but is intended to provide an order of magnitude of expenses. It is reasonable that a newer office building would not only be more efficient in terms of space utilization but also in terms of energy efficiency of the building envelope, windows and mechanical systems for heating and cooling. (More detail on how we derived these costs can be found in the Stantec final Program Analysis Report for the County Office Building.)

Capitalized Cost Comparison – COB

Applying the same 4.5% cap rate used to capitalize the Courts operating expenses, we compared the COB's current expenses and projected expenses if it were relocated. The capitalized value of the 401 McIntire building's current operating expenses of \$1.1 million is \$24.1 million. This compares to a capitalized value of estimated operating expenses for a new COB of \$16.6 million, reflecting what we would expect to be a potentially significant cost savings over time. The approximate \$339,000 in net operating savings between a new COB and the existing COB, has a capitalized value of \$7.5 million.

Current 401 McIntire Road Costs	
Capital Cost (from CIP)	\$3,152,431
Annual Operating Costs	\$1,085,620
Capitalized Value of Annual Operating Costs	\$24,124,889

Option 4 – COB Standalone	
Standalone Capital Cost	\$36,942,900
Total Capital Cost (Option 4 vs 401 McIntire)	+\$33,790,469
Annual Operating Expense of Option 4	\$746,954
Annual Operating Savings (Option 4 vs 401 McIntire)	(\$338,666)
Capitalized Value of Operating Savings (Option 4 vs 401 McIntire)	(\$7,525,911)

However, to get a measure of the full cost implications of Option 4, we add the total capital costs of relocating the COB with the New Baseline costs under Option 1 and we get a total capital cost of \$70.5 million. In terms of operating costs, Option 4 +1 will provide a savings of \$145,302 in operating expenses per annum compared to current expenses for both facilities, which has a capitalized savings of \$3.2 million.

Option 4 + 1 (COB and Baseline)	
Total Net Capital Cost (Option 4+1) (less 401 McIntire projected Capital Cost)	\$70,543,869
Total Annual Net Operating Costs (Option 4+1)	(\$145,302)
Capitalized Value of Net Operating Costs/(Savings)	(\$3,228,933)

On the same basis the scenario of moving the Courts and the COB would be more expensive. The aggregate capital costs would be \$83 million and the capitalized operating costs would total \$16.1 million.

Option 4 + 3 (COB and Courts Relocation)	
Total Net Capital Cost (Option 4 + 3)	\$82,990,469
Total Annual Net Operating Cost (Option 4+3)	\$722,734
Capitalized Value of Net Operating Costs	\$16,060,756

As we have shown, every option has a capital cost and ongoing cost impact and it is necessary to evaluate both to understand the true potential cost. While the cost analysis indicates that the Courts options located in the county have cost premiums, they need to be weighed against qualitative analysis and potential benefits from associated development. We discuss these benefits, incorporating the qualitative criteria for evaluating the Courts and the COB choices. Furthermore, public-private partnerships could be structured to transfer some or all of the capital costs of development, depending on the market conditions, the specifics of a site and its ownership and the goals of the County. P3s can be effective in helping to structure a deal that strikes the right balance between capital costs and ongoing costs to the County.

5. DEVELOPMENT SCENARIOS

For the Rio+29 development scenarios, we created a comprehensive development pro forma. The goal of this analysis was to assess the capacity for private, mixed-use development on a hypothetical site utilizing market-driven assumptions and to understand the impact of locating the County Office Building and/or County Courts at Rio+29. Additionally, we evaluated the degree to which investment returns to the developer were sufficiently attractive. An explanation of development model assumptions can be found in Appendix C.

Absorption

The scenarios were developed to represent buildable areas and a development program that we believe can be reasonably absorbed by the market without destabilizing it, but that are also large enough to create the required economies of scale that can drive returns for a developer. For example, we extrapolated residential absorption numbers for Charlottesville from a 2016 Housing Study by RCLCo and applied the assumption to the “urban ring,” which would include the Rio+29 area. An average of 400 units were absorbed annually between 2013 and 2016, with a spike in the earlier years that leveled off. Based on this, we think the absorption is likely larger than 400 units once Albemarle county projects are included, and that the Rio+29 development area could capture a significant portion of the share. Therefore, we projected a minimum of 360 units and as much as 720 units of multifamily development under a moderate buildout and a higher density scenario, which would take place over multiple phases over a ten-year period.

Furthermore, we project 50,000 SF of private office space in a later phase and are cautious due to the existing commercial Class B office supply that already exists in the area. Additional private office may follow the County's tenancy, but it is unlikely a large amount of private office would be developed speculatively. If a developer can pre-lease office space, a greater amount of private office may be included.

Structured Parking

We consider structured parking to be a crucial element of creating the type of downtown, walkable community in which the County has expressed an interest. For each scenario, we have included structured parking. In some cases, we reduce the residential parking requirement, if there is a shared parking percentage where office uses are included and generate a higher parking requirement. We also assume a building type that allows for some amount of parking spaces at-grade, wrapped by retail on one side. We recognize, however that structured parking comes at an additional cost that is not fully offset by the apartment or by the office rents achievable in the marketplace. Furthermore, the Albemarle market does not have paid parking, and therefore no foreseeable income stream exists to offset the cost of constructing or operating a garage. Funding gaps in our scenarios are a reflection of the structured parking program assumptions in the particular scenario.

In order to create the desired walkable, urban environment that is being targeted by the county, it will be crucial to address the parking situation, and pursue parking solutions other than the traditional large suburban parking lot. While a parking structure would be a major step in the right direction, this comes at a significant cost, and it is unlikely a developer would pursue this path without some sort of incentive or intervention.

Returns

Return on Cost is a widely used metric for evaluating the yield of a development project. The developer profits on the spread between the yield on the total project costs and the market cap rate upon sale (the developer's "exit" cap rate). A capitalization rate or "cap rate" is calculated by dividing the projected stabilized net operating income by the project cost. For the residential buildout scenario, we are currently seeing a healthy going-in return on cost of approximately 6.5%, or 50 basis points above anticipated exit cap rates, assuming the developer is responsible for the cost of some portion of a structured parking garage. Exit cap rates are presumed to be a reasonably conservative 6%. Typically, developers aim to see between 75 and 100 basis point spreads, but we recognize that multifamily development returns nationally are currently very tight, so a smaller spread may still represent a very viable and attractive opportunity. Our multifamily development scenario shows the developer's return on cost increase to 6.8%-7.2% when alternate funding is assumed for the development of the garage. We did not structure our model to achieve a target return for residential or private office development, but rather to show the return under a host of assumptions. We did not run a sensitivity analysis, although the returns calculated are heavily dependent on various assumptions throughout the pro forma.

For the moderate density build-out scenario, where the developer is responsible for the cost of constructing a garage, returns for the two-phase project modeled are only 6.1% and 6.2%, respectively. These returns only represent a 0.1% or 0.2% spread between the exit cap rate and the developer's cost basis. Typically, developers would look to achieve a spread of at least 75 or 100 basis points. For the same level of build out, without the parking burden, a developer may achieve a spread of 0.5% on the first phase of the project, and 1.6% on phase two. This is perhaps enough of a boost to be attractive to a potential developer.

On the high-density build-out scenario, there are similarly low returns when the developer is faced with the burden of financing a parking structure. In the first two phases of development, returns on cost is only 6.1% and 6.2%. Without a parking burden, the first phase looks slightly better at 6.5%, and the latter two phases achieve a 6.8% return on cost.

Development Budget

We calculated a complete development budget by assigning the appropriate costs to the projected square footage to be developed. The project that was assessed represents 869,200 total Gross Square Feet to be developed across two phases. The breakdown of uses includes:

Medium Build-Out	TOTALS
Multifamily Units	360 units
Multifamily Residential	360,000 SF
Office	210,000 SF
Retail	20,000 SF
Structured Parking	174,000 SF
Total	764,000 SF

High Build-Out	TOTALS
Multifamily Units	720 units
Multifamily Residential	720,000 SF
Office	210,000 SF
Retail	30,000 SF
Structured Parking	271,800 SF
Total	1,231,800 SF

The development budget for the moderate-density project includes approximately \$6.2M in acquisition costs, \$123.3M in Construction Hard Costs, and \$23.1M of Soft Costs. With the addition of Financing Costs and Developer's Fee, the total project budget totals approximately \$166.3M for all product types and all phases. This equates to approximately \$217/sf for Total Development Costs, when the COB is included. Since some existing property owners are likely candidates for redevelopment in the Rio+29 area, we assume that acquisition costs are equally offset by seller financing (typically in the form of a subordinated seller note) which effectively reduces the owner/developer's cash equity requirement, thereby boosting their yield. The actual basis of the land/property would have to be taken into account to determine if this is a reasonable assumption for a particular property.

As noted above, a 20% parking share has been included. Financing would come from a variety of sources, including a construction loan, seller's note, equity contribution from the developer, and County financing for the garage.

Operating Pro forma

The operating pro forma within the financial model breaks the project down by development phase, and includes a lease-up period to stabilization. First, Gross Potential Rent (GPR) is calculated for each product type. A vacancy allowance is subtracted from the GPR to reach Effective Gross Income. Total net income for Phase One of the project is approximately \$8.2M at stabilization in Year 6, where the COB is not included. With total annual expenses at about \$2.4M we could derive a Net Operating Income on which debt capacity, as well as projected value were calculated, and upon which a Yield on Cost, or return to the developer, was also calculated. Net Operating Income is approximately \$5.8M upon stabilization.

Cash Flow and Returns

A detailed cash flow for each phase of development was laid out to better understand all cash in (rental revenue less expenses) and out (debt service payments) in various time periods. The model allows for a two-year development period, two years of construction, and two years of lease up. Stabilization occurs in Year 6. Rental and expense escalations are both set at 3% annually. The resulting information allows for the calculation of an internal rate of return by individual phase and by combined project. It is assumed that the developer would sell the project upon stabilization, Year 6 for the first phase of development, and Year 9 for the second phase. The Levered Internal Rate of Return for the combined project is almost 18.5%. Phase One has a 6.1% Yield on Cost, and Phase Two achieves a 7.6% Yield.

6. ECONOMIC BENEFITS ANALYSIS

Options 1 and 2 – New Baseline and Reduced Levy Options

While the New Baseline for the Courts presents the least costly option for providing an expanded and modern courts facility, it will never be able to provide for direct or indirect economic benefit to the County by virtue of its location. The same conclusion can be made for the Reduced Levy Option, which would end up costing slightly more than the New Baseline.

Option 3 – Courts Relocation

The Court Relocation option in our view has some potential to create a development impact but this potential is limited. It is reasonable to expect that over time, some businesses that are centered around the judicial system and processes will open law offices and other supporting businesses closer to the courts. But as the City courts and the J&DR courts will remain in Court Square, only a relatively small portion of the law offices might move. In our moderate density development scenarios, we project 50,000 SF of small office development and retail that would occur in/around a court or COB relocation. Option 3 would be a less expensive path vs Option 4+1 in terms of capital costs to create the anchor of a new town center in the county and to allow the private sector to respond. However, it would be more expensive in terms of operating costs than Option 4+1.

We believe, however, that there are limitations to the degree of development possible due to the relatively small size for the Albemarle courts (88,000 SF) and the relatively fewer employees and stakeholders who frequent the court on a daily basis as compared to courts in larger jurisdictions and as compared to the number of employees who work in the COB, for instance. Visitors to the courts for jury duty, a speeding ticket or other reasons are not necessarily repeat visitors who would provide a reliable and steady stream of daytime pedestrian traffic. The inevitable transition into electronic file management, video conferencing and use of technology by courts, which has happened elsewhere across the world, may alter the volume of visits by people who currently go to the clerks' offices to obtain records. Video conferencing may become an increasingly effective way for interpreters to provide their services without being physically present at court.

As a quick way to estimate the potential impact on retail development as a result of the presence of the Courts at Rio+29, we estimated ancillary spending per day by employees/stakeholders and visitors of the Courts and how that might translate into supportable sales per square foot (psf) and how much retail space that could represent. Our ballpark estimate is below, showing that the Courts might support only 1750 SF of retail or restaurant space that is, equivalent to a small restaurant or a large coffee shop. Even if the below assumptions are conservative, the order of magnitude of supportable retail will not be very large.

No. of People	Spending/ person/day	Spending/yr	Average Retail Sales psf	Amount of Supportable Retail SF
35 FTEs (Dewberry Study+) 75 Regular stakeholders 100 Visitors	\$10	250 days/yr		
210 people	\$2,100/day	\$525,000/yr	\$300	1,750 SF

Nevertheless, it is possible that a private property owner or developer has visions for what this court could look like, surrounded by a mixed-use development and we believe it would be worth exploring this possibility during a premarketing exercise. The primary benefit of the Court in this scenario is to provide a symbolic anchor and it may have some advantage in a blended financing scenario.

Option 4 – COB Relocation

As compared to the Court Relocation option, our view is that a County Office Building would serve as a more compelling anchor presence for a mixed-use development of moderate to higher density due to the number of employees who would work in the building (approximately 450) and daily visits by other county employees, citizens and people with professional business at the COB. Note that under this scenario, the Social Services and Housing Departments would be consolidated with the rest of the administrative departments in one building, and these services generate a significant number of visitors each day. The daytime population and buying power generated by the COB would have an impact on retail/restaurant sales and would be complementary with the predominantly nighttime population of apartment dwellers. In addition, as with the Courthouse, a large office building would start to establish the selected location as an office location. Further, the office building could have retail at its base and help to provide continuity within the retail walking streets within the larger development.

One of the keys to a successful mixed-use development is achieving the right balance of uses and population. The presence of an anchor tenant like the County for a significant amount of space makes the development much more compelling to retailers and restaurants. These businesses thrive on having a predictable population throughout the day and on weekends. With a captive market of COB employees, some restaurants that would ordinarily only open for dinner service for a resident population, might find it feasible to open for lunch service. With a permanent resident population, restaurants could start to open for brunch.

Applying our ballpark estimates for supportable retail from the daytime population generated by the COB, the figures are more significant with potentially \$1.3 million/year in spending which could support approximately 4,370 SF of retail space. This is equivalent to a couple of fast-casual restaurants or two 50-seat restaurants. If the daytime population is strong, it would help to sustain businesses that would otherwise rely on the resident population – apartment dwellers – that would still be solid but not as strong as having daytime population as well. We can apply the same estimates to the resident population: assuming every 100 apartment units would have 150 residents, 300 apartments would be the rough equivalent of 450 residents, spending \$200/month for 12 months and supporting 3,600 SF of retail space. Our moderate density development scenario projects 360 units and our high build scenario projects 720 units phased-in.

No. of People	Spending/ person/day	Spending/yr	Average Retail Sales psf	Amount of Supportable Retail SF
446 FTEs 150 Visitors/day	\$10	250 days/yr		
596 people	\$5,960/day	\$1,311,200/yr	\$300	4,370 SF

Importantly, a newly constructed COB would bring with it the need for structured parking, and some of this parking could be shared with the other residential and retail uses across the mixed-use development to reduce the overall parking requirement. This advantageous strategy for shared parking across different users is becoming increasingly common for the success of mixed-use development and supporting placemaking by prioritizing people and pedestrians over cars.

Essentially, mixed-use development requires the right balance of complementary uses, which would in turn bring jobs and spending to the area.

Inclusion of the office building, as a strong credit tenant in a P3 development, may also help the financing of the overall project, bring infrastructure to a development parcel and spur additional multifamily development that would not otherwise occur or might occur in a slower timeframe. P3s can be very effective in carrying out a master planned development, and we believe it is worthwhile for the County to explore this possibility for the COB to be relocated to the county.

Provision of a Site for a County Facility in Combination with a Mixed-use Development

The County does not control a site of sufficient scale in the Rio+29 area or nearby that could accommodate a significant mixed-use development and one or both County facilities considered in this study. For best results, the public facilities and the mixed-use components would need to be developed as one project. Therefore, the County would need to rely on private property owners to provide such a site. We would be concerned about the County buying a site and then turning around and selling it to a private developer to develop through a P3 process. There is significant risk that there may not be any developers interested. We believe the better solution is for the County to solicit P3 developers working with landowners to offer their property to develop the combined public facility integrated with mixed-use development. While we can identify a number of suitable properties, we believe it is important to reach out to property owners to discuss their interest in the concept in much greater detail than we have been able to in the scope of this study. We would recommend a 6-month period for detailed discussions with property owner and P3 developers to see how interested they are in one or both County facilities (Courts and COB), and what else is important for a development to go forward. Within this period, we would also reach out through a Request For Expression of Interest process. While we've indicated our concern about developing both the Courts and the COB as part of a mixed-use development due to scale of the sites, it would be beneficial to understand property owners' and developers' views.

7. QUALITATIVE CRITERIA

The Board of Supervisors have evaluated a number of qualitative and risk management criteria in an effort to prioritize the many considerations for evaluating the Options. The criteria are listed below in order of their relative standings, as ranked by the members of the Board. Herein, we will discuss these criteria, emphasizing the higher-ranking criteria and spending less time on those that are lower on the list, with one notable exception being Litigation/Legal Risk which was deemed last among the Risk Management Criteria. We also spend less time discussing the accessibility and convenience, adjacency, facilities operational efficiencies and co-location impacts because there has been a tremendous amount of information and analysis provided by NCSC, Moseley and others.

Qualitative Criteria	Risk Management Criteria
<ul style="list-style-type: none"> - Accessibility and Convenience for Users - Enhanced Security - Placemaking Opportunities in County - Facilities Operational Efficiencies - Adjacency Impacts - Preservation of Courthouse as Historic Asset - Co-Location Impacts - Leadership in Environmental Design (LEED) Principles 	<ul style="list-style-type: none"> - Opportunity Cost - Implementation Risk - Construction Risk - Risk/Control Allocation - Funding Capacity - Impact on Bond Ratings - Litigation/Legal Risk

Options 1 and 2 – New Baseline and Reduced Levy Options

In terms of costs, we believe Options 1 and 2 will adequately provide for accessibility, convenience and enhanced security. There may be arguments made about whether the downtown is more convenient than Rio+29, but relatively speaking, both locations are generally accessible and convenient.

One of the glaring shortfalls of the downtown options is that there can be no placemaking opportunities in the county. The opportunity cost of making a capital investment in the current Downtown location is the inability to leverage that investment as a form of economic incentive for development to occur in the county. Nevertheless, we have previously stated that we do not believe the economic incentive that is embodied by the Court presence in an area would be sufficient. In other words, the Courts are not anticipated to be a significant catalyst for development in the Rio+29 area. Moreover, we believe the cheaper downtown options to renovate the Courts downtown would better position the County to preserve funds for other economic development programs and incentives that would attract jobs, invest in placemaking and other initiatives in the county.

In terms of risks for Options 1 and 2, the implementation risk and construction risk of a historic renovation of Court Square under Option 1 or 2 is relatively high as compared to implementation risk for a greenfield site in the county. Factors such as construction staging and sequencing while courts are still in operation have not been fully studied and could introduce new complexities that could impact the schedule and costs of the project.

Option 3 – Courts Relocation

The Courts Relocation option might satisfy many of the qualitative criteria, but in our view,

those are diminished by the potential of the litigation risk. We understand it is likely that the local Bar Association intends to sue the County should it attempt to relocate the Courts without a public referendum vote. Such a lawsuit could create uncertainty and delay the resolution of the courts' location for some time, which has real deficiencies and pressing problems with the existing Courts facilities. It is also possible that the decision to relocate the Courts is put to a referendum vote. The County would also have to determine whether the potential benefit of relocating the Courts outweighs the risk management considerations. This uncertainty could delay or impede a P3 developers willingness and ability to pursue the mixed-use/Courts development.

Option 4 Standalone and 4+1 – COB Relocation

The possibility of relocating the County Office Building will require that the County pursue Option 4 plus 1. The potential benefits of the COB being located in the county is to serve as a more effective tool for stimulating additional development and planting a seed for future growth, and for this reason alone, we believe it is worthwhile to explore developer interest in a potential P3 because it's possible for P3 structures to transfer the cost of the project from the County to the P3 partner in exchange for payments over time.

Option 4 may raise a few risk management criteria, including implementation and how to allocate, monitor and enforce the risk/control provisions of a P3. But it's premature to assess these aspects of P3 until better market feedback is obtained, which we can be achieved through a premarketing and Request for Information process.

Option 5 – Courts and COB Relocation

The possibility of relocating the Courts and the COB could generate an impactful level of additional development that's perhaps greater than the sum of its parts; however, this would come at a significant cost to the County, as discussed above, and there are important constraints. Even under a P3 structure whereby project costs are transferred, the County must be prepared to make some contribution of value, whether that be in the form of infrastructure investment, tax abatement, direct subsidy, rent payment or other assistance, or a combination of those items. The more obligations that burden a project, the more difficult it will be to realize it. Moreover, the Courts would potentially displace income-producing tenants in the Rio+29 area, unless rezoning and upzoning were to occur as well.

There is a limit to what can be expected through land use tools such as upzoning in a tertiary market; the underlying market conditions must be strong enough to absorb new supply and the fundamental economic health of the region must be sufficient to generate more demand.

We also note that including both County components takes up a lot of room within the development which given the relatively modest sites that may be available reduces the private development square footage that the County is trying to promote.

For large-scale development to occur, developers must have the financial wherewithal to front predevelopment costs, put up financial guarantees and have experience with all mixed-use product types. The local developer may not satisfy these requirements and will look to more sophisticated and financially strong partners, who then typically will finance projects with institutional investor equity and debt. Because sophisticated real estate investors and debt lenders have a choice of where to invest, and they have due diligence processes that scrutinize each investment, they must be convinced that the economic fundamentals of a region are solid and that the prospects for job growth are strong.

Appendices

Courts and County Office
Building Relocation

APPENDIX A

ALBEMARLE COURTS/COB ANALYSIS - COST PROJECTIONS

Option 1 - New Baseline		10% of Costs	10% of Costs	40% of Costs	40% of Costs	5	6	7	8	9	10
		1	2	3	4						
General District Court (incl. City)	29,997,400	2,999,740	2,999,740	11,998,960	11,998,960						
Circuit Court (incl Judges parking)	14,156,000			1,415,600	1,415,600	5,662,400	5,662,400				
(Sale Proceeds)	(500,000)			(500,000)							
(City Contribution)	(6,900,000)			(6,900,000)							
Net	36,753,400	2,999,740	2,999,740	6,014,560	13,414,560	5,662,400	5,662,400	-	-	-	-
CIP FY19				29,004,146		8,438,991					
Option 1 - Additional Operating Expenses - New Baseline		2%									
Courts Facilities Opex (\$2 psf x 91,900 SF)	183,800	187,476	191,226	195,050	198,951	202,930	206,989	211,128	215,351	219,658	224,051
Less City Prorata Share of Opex (20%)	(40,436)	(41,245)	(42,070)	(42,911)	(43,769)	(44,645)	(45,538)	(46,448)	(47,377)	(48,325)	(49,291)
Garage Prorata Share of Opex (33%)	50,000	51,000	52,020	53,060	54,122	55,204	56,308	57,434	58,583	59,755	60,950
Net	193,364						217,759	222,114	226,557	231,088	235,710
	4,834,100										
Option 2 - Reduced Levy Option		10% of Costs	10% of Costs	40% of Costs	40% of Costs						
General District Court (incl. City)	24,564,000	2,456,400	2,456,400	9,825,600	9,825,600						
Circuit Court	14,156,000			1,415,600	1,415,600	5,662,400	5,662,400				
(Sale Proceeds)/Payments	300,000			300,000							
(City Contribution)	-			-							
Net	39,020,000	2,456,400	2,456,400	11,541,200	11,241,200	5,662,400	5,662,400	-	-	-	-
Option 2 - Additional Operating Expenses - Reduced Levy		2%									
Courts Facilities Opex (\$2 psf x 77,400)	154,800	157,896	161,054	164,275	167,560	170,912	174,330	177,817	181,373	185,000	188,700
Garage Prorata Share of Opex (33%)	50,000	51,000	52,020	53,060	54,122	55,204	56,308	57,434	58,583	59,755	60,950
Net	204,800						230,638	235,251	239,956	244,755	249,650
Option 3 - Courts Relocation		0.5% of Costs	0.5% of Costs	10% of Costs	10% of Costs	39.5% of Costs	39.5% of Costs				
GD & Circuit Courts combined	49,168,863	261,344	261,344	5,226,886	5,226,886	17,546,201	20,646,201				
(Sale Proceeds)/Payments	(3,100,000)					(3,100,000)					
(City Contribution)	-										
Net	46,068,863	261,344	261,344	5,226,886	5,226,886	14,446,201	20,646,201	-	-	-	-
<i>Assumes sale of existing Levy Site does not occur until new site is completed and ready for occupancy.</i>											
Option 3 - Operating Expenses - Courts		2%									
Sheriff's Office (+5 deputies)	565,400	576,708	588,242	600,007	612,007	624,247	636,732	649,467	662,456	675,705	689,219
Commonwealth's Attorneys (+2 attys)	170,000	173,400	176,868	180,405	184,013	187,694	191,448	195,277	199,182	203,166	207,229
New Courts Facilities Opex (\$2 psf x 88,000)	176,000	179,520	183,110	186,773	190,508	194,318	198,205	202,169	206,212	210,336	214,543
Garage Operating Expenses (300 spaces)	150,000	153,000	156,060	159,181	162,365	165,612	168,924	172,303	175,749	179,264	182,849
Net	1,061,400							1,219,215	1,243,599	1,268,471	1,293,841
	26,535,000										
Option 4 - COB Relocation (NEED TO ADD OPTION 1)		0.5% of Costs	0.5% of Costs	10% of Costs	10% of Costs	39.5% of Costs	39.5% of Costs				
New County Office Building	55,942,900	279,715	279,715	5,594,290	5,594,290	22,097,446	22,097,446				
(Sale Proceeds)/Payments	(19,000,000)						(19,000,000)				
Net	36,942,900	279,715	279,715	5,594,290	5,594,290	22,097,446	3,097,446	-	-	-	-
<i>Assume sale of existing COB building/site does not occur until new site is completed and ready for occupancy.</i>											
New Baseline plus COB Relocation	73,696,300	3,279,455	3,279,455	11,608,850	19,008,850	27,759,846	8,759,846				
Option 4 - Operating Expenses - COB		2%									
New COB Facilities Opex (\$5.62 psf - from Program Analysis)	746,954	761,893	777,131	792,674	808,527	824,698	841,192	858,016	875,176	892,679	910,533
Garage Operating Expenses (480 spaces)	240,000	244,800	249,696	254,690	259,784	264,979	270,279	275,685	281,198	286,822	292,559
Net	986,954							1,133,700	1,156,374	1,179,502	1,203,092
	current 401 McIntire Opex										

Summary of COSTS OF DEVELOPMENT SCENARIOS



Development Scenario 1 - Moderate Buildout						
	With Garage Cost*			Without Garage Cost		
	TOTAL	Phase 1	Phase 2	TOTAL	Phase 1	Phase 2
<u>Program</u>						
Multifamily Units		360 units	0 units		360 units	0 units
Multifamily Residential	360,000 SF	360,000 SF	0 SF	360,000 SF	360,000 SF	0 SF
Office	50,000 SF	0 SF	50,000 SF	50,000 SF	0 SF	50,000 SF
Retail	20,000 SF	10,000 SF	10,000 SF	20,000 SF	10,000 SF	10,000 SF
<u>Structured Parking</u>	<u>103,800 SF</u>	<u>73,800 SF</u>	<u>30,000 SF</u>	<u>0 SF</u>	<u>0 SF</u>	<u>0 SF</u>
Total	533,800 SF	443,800 SF	90,000 SF	430,000 SF	370,000 SF	60,000 SF
<u>Sources (in millions)</u>						
Acquisition	\$4.6	\$3.7	\$0.9	\$4.3	\$3.7	\$0.6
Hard Costs	\$82.3	\$68.1	\$14.2	\$74.1	\$62.3	\$11.8
Soft Costs	\$14.7	\$10.8	\$3.9	\$14.1	\$10.4	\$3.7
Financing Costs	\$6.1	\$4.9	\$1.2	\$5.6	\$4.6	\$1.0
<u>Developer Fee</u>	<u>\$3.2</u>	<u>\$2.6</u>	<u>\$0.6</u>	<u>\$2.9</u>	<u>\$2.4</u>	<u>\$0.5</u>
Total Development Costs	\$110.9	\$90.2	\$20.7	\$101.1	\$83.4	\$17.7
<u>Uses (in millions)</u>						
Debt	\$72.1	\$58.6	\$13.5	\$65.7	\$54.2	\$11.5
Seller Note	\$3.7	\$3.7	\$0.0	\$3.7	\$3.7	\$0.0
Equity	\$34.7	\$27.5	\$7.3	\$31.3	\$25.1	\$6.2
Interim Income	\$0.4	\$0.4	\$0.0	\$0.4	\$0.4	\$0.0
<u>Financing Gap</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total Sources of Funds	\$110.9	\$90.2	\$20.7	\$101.1	\$83.4	\$17.7
Return on Cost - Office	-	-	6.2%	-	-	7.6%
Return on Cost - Multifamily/Retail	-	6.1%	-	-	6.5%	-
Exit Cap Rate	-	6.0%	6.0%	-	6.0%	6.0%
Spread to Exit Cap	-	0.1%	0.24%	-	0.55%	1.61%
IRR (5-year)	-	15.5%	-	-	23.6%	-
IRR (10-year)	27.6%	-	17.3%	36.4%	-	43.0%
Equity Multiple	2.29x	1.50x	1.40x	2.88x	1.81x	2.12x

*Garage Cost to Developer

COUNTY OF ALBEMARLE



Development Scenario 2 - High Buildout						
	With Garage Cost			Without Garage Cost		
	Phase 1	Phase 2	Phase 3	Phase 1	Phase 2	Phase 3
<u>Program</u>						
Multifamily Units	360 units	180 units	180 units	360 units	180 units	180 units
Multifamily Residential	360,000 SF	180,000 SF	180,000 SF	360,000 SF	180,000 SF	180,000 SF
Office	0 SF	50,000 SF	0 SF	0 SF	50,000 SF	0 SF
Retail	10,000 SF	10,000 SF	0 SF	10,000 SF	10,000 SF	0 SF
Structured Parking	78,900 SF	39,450 SF	39,450 SF	0 SF	0 SF	0 SF
Total	448,900 SF	279,450 SF	219,450 SF	370,000 SF	240,000 SF	180,000 SF
<u>Sources (in millions)</u>						
Acquisition	\$3.7	\$2.7	\$29.3	\$3.7	\$2.7	\$27.3
Hard Costs	\$69.1	\$45.9	\$0.0	\$63.6	\$43.2	\$0.0
Soft Costs	\$10.9	\$10.0	\$15.8	\$10.5	\$9.8	\$14.7
Financing Costs	\$5.0	\$3.5	\$0.0	\$4.7	\$3.4	\$0.0
Developer Fee	\$2.7	\$1.2	\$0.0	\$2.5	\$1.8	\$0.0
Total Development Costs	\$91.3	\$64.0	\$45.0	\$85.0	\$60.9	\$42.0
<u>Uses (in millions)</u>						
Debt	\$59.4	\$41.6	\$29.3	\$55.3	\$39.6	\$27.3
Seller Note	\$3.7	\$0.0	\$0.0	\$3.7	\$0.0	\$0.0
Equity	\$27.9	\$22.4	\$15.8	\$25.7	\$21.3	\$14.7
Interim Income	\$0.4	\$0.0	\$0.0	\$0.4	\$0.0	\$0.0
<u>Financing Gap</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total Sources of Funds	\$91.3	\$64.0	\$45.0	\$85.0	\$60.9	\$42.0
Return on Cost - Office	-	-	-	-	-	-
Return on Cost - Multifamily/Retail	6.0%	6.3%	6.3%	6.4%	6.7%	6.7%
Exit Cap Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Spread to Exit Cap	0.0%	0.33%	0.27%	0.42%	0.74%	0.72%
IRR (5-year)	14.2%	-	-	21.6%	-	-
IRR (10-year)	-	18.9%	19.1%	-	27.1%	28.0%
Equity Multiple	1.45x	1.44x	1.44x	1.73x	1.66x	1.68x

APPENDIX C: DEVELOPMENT PRO FORMA ASSUMPTIONS

To build the model, the first step was to establish the inputs for the various assumptions that would feed into the analysis. Major categories include establishing the development program, understanding construction costs, determining financing, and projecting revenue. We analyzed multiple scenarios, include a moderate-density, and a high-density option. The basis for the assumptions is as follows:

Program Assumptions

Residential – Units and Unit Mix	Moderate build-out includes 360 units, while high-density build-out includes 720 units. The unit mix applied is 55% 1-bedroom, 35% 2-bedroom and 10% 3-bedroom; this breakdown is consistent with similar residential development throughout the country where there's a heavy weighting towards one-bedroom and two-bedroom units. Studios are not typical in this market.
Residential – Unit Sizes	Units ranging from 750sf – 1,200sf are slightly smaller than the comparable market, but generous when compared to other primary and secondary apartment markets in more urban areas. Unit size assumptions can greatly impact the rent per square foot variable.
Office Square Footage	We assume that large office space will not likely be developed unless the space itself is pre-leased to the County or has a similar build-to-suit tenant. Our more conservative stance on office feasibility is due to the high parking ratios (3 per 1000 SF) associated with office uses that can drain a project and tends to bias a developer towards cheaper surface parking rather than building structured parking. Therefore, in both the moderate and high buildout scenarios, we project only 50,000 SF of private office space, and are cautious due to the existing commercial Class B office supply that already exists in the area. This is against the backdrop of a virtually 0% vacancy currently for office space in downtown Charlottesville, according to CBRE. Approximately 480,000 SF of new office development is undergoing the permitting process in Charlottesville, and some of the demand will be absorbed. If new employers or companies were to relocate to Albemarle and the Rio+29 area, we would adjust this assumption.
Retail SF	20,000 sf of retail is the projected medium build scenarios, which is modest given the existing concentration of retail in this area and an arguably saturated market. The retail here would need to be distinguished from other retail pockets along the Route 29 corridor in order to be successful.
Parking	In the moderate buildout scenario, we apply 1.5 spaces/residential unit and 3 spaces/1,000sf of office and

retail, which are industry norms for similar markets with limited public transportation options. In the high buildout scenario, we assume a slightly lower ratio of 1.25 spaces/residential unit would be achievable, with a view that improved transportation and/or mobility technologies may warrant a more progressive ratio in the future. A 20% parking share has been included in both cases to account for a reduced need due to daytime vs. evening demand; this share goes towards reducing the residential parking requirement.

Phasing/Absorption

In the moderate buildout scenario, 100% of the residential development and 10,000 SF of retail were included in the first phase of development. Apartment demand is strong, as indicated by the persistent low vacancy rates in the market, hovering at about 2% vacancy among the comparable properties we looked at. This low vacancy level reveals unmet demand for apartments. However, per a 2016 Housing Study by RCLCO, the Charlottesville market absorbed an average of 400 units per year. We have extrapolated this data to apply to the "urban ring" which includes the Rio+29 area.

Cost Assumptions

Hard Costs

Construction Hard Costs were derived from a combination of Charlotte, NC cost estimates used for another project, as well as from a local comparable development.

For Residential, our fundamental assumption is for a denser, walkable mixed-use neighborhood that would call for 4- to 5-level apartment complexes in elevator buildings. Hence, our residential construction cost assumes \$150 psf for wood-frame construction over a concrete parking podium/retail base in both the medium and high density scenarios. We recognize that currently, the predominant style of apartment construction in the urban ring, excluding downtown Charlottesville, is a less expensive wood-frame construction for garden-style townhouses in non-elevator buildings, which likely range between \$115 psf to \$125 psf, a significant savings that would impact the feasibility analysis.

For Office Construction Cost assumptions, we used \$187.50 psf, which is the midpoint of estimates received (\$175 to \$200 psf) for the COB Program Analysis. In the Program Analysis, we had escalated the construction cost assumption to be consistent with escalated cost estimates for the courts. However, for the development pro forma, we removed the escalation factors because escalation was programmed into the spreadsheet model.

Retail construction assumes a cold dark shell, and no additional interior fit out. Fees and general conditions are estimates based on industry standards as percentages of Hard Costs.

Parking Costs Parking costs of \$20,000 per space represents the higher end of a range provided by local builders' and the national median parking construction cost for 2016 (\$19,037) from a report by parking consultants Carl Walker.

Note, when we discuss a developer not being faced with a parking burden, this only means that they do not have the additional expense of constructing a garage structure. A developer would still be required to pay for surface parking to satisfy the requirements of the project.

Soft Costs Soft Costs are generally estimates based on experience and industry standards. Some line items are per building, some are per site, and some per month of construction, for example. Soft costs for the project are approximately 24% of Hard Costs, which is well within a normal range.

Financing Assumptions

Construction Loan The maximum size of the loan is 65% of the total development costs. We applied an all-in rate on construction interest of 4.0%.

Permanent Financing Permanent financing was calculated to be the lesser of a 1.3 Debt Service Coverage Ratio (DSCR), standard for Commercial development, and 75% Loan-to-Stabilized Value. Rates are based on a 10-year US Treasury yield plus an average spread.

Valuation The Stabilized Value is based on capitalization of the stabilized Net Operating Income (NOI), using a capitalization rate of 6%, in-line with the local market, which is slightly higher than cap rates in primary markets.

Revenue Assumptions

Residential Rents Residential rents were determined following conversations with property managers of similar apartment complexes in the market including Stonefield Commons, The Reserve at Belvedere, Arden Place and older properties. In the course of our apartment market research, we noticed Stonefield Commons was experiencing significant rent increases over the course of our rent inquiries with the most recent being November 2017. Thus, our market rent assumptions are predominantly based on Stonefield's rents as the newest and best property in the market, which appears to be commanding the best rents in the subject area of Rio+29.

Residential Expenses Residential expenses were based on the National Apartment Association's 2016 Housing Survey which provides benchmark line-item expenses to operate apartment buildings of different types and in different regions of the U.S. plus a 3% escalation to 2017. The operating expense assumption was approximately \$6100 per unit (before escalation to the year of lease-up), which included \$1600 per unit in property taxes that were a

result of comparing taxes for newest apartment product in Albemarle County in the Rio+29 area – primarily Stonefield Commons Apartments and The Reserve.

Retail Rents	Retail rental rates of \$22.50 psf were derived from Loopnet comps and CBRE research as of July 2017.
Retail Expenses	Retail expenses are typically “triple net” or “NNN” meaning that a portion of the building’s taxes, insurance and common area maintenance are the responsibility of the tenant; the “NNN” is expressed as a \$ psf of retail space and collected as income to the property.
Office Rents	Office rents at \$27 psf are based on CBRE research from 2016 and more recent market comparables from July 2017 for a select number of Class A, new construction buildings in the marketplace.
Office Expenses	Office expenses differ between COB and private based on the exclusion or inclusion, respectively, of taxes and insurance.
Vacancy	Vacancy assumptions are based on industry standards, and reasonable estimates of absorption potential in this market. Office vacancy is slightly lower due to the County tenancy.