



## Economic Feasibility Analysis in Master Planning: The Downtown Glenview Example

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## Consultant Team

- ***S. B. Friedman & Company*** (Team Leader)
  - Market and financial analysis; strategic and implementation planning
- **The Lakota Group**
  - Physical planning and urban design
- **KLOA**
  - Transportation planning and traffic engineering
- **Christopher Burke Engineering**
  - Stormwater and river-related issues

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# Key Components of Study

## Phase 1

- Articulate overall goals

## Phase 2

- Market and physical analysis
- Identify opportunity sites

## Phase 3

- Create a range of development concept options
- Test economic parameters of concepts

## Phase 4

- Refine results into preferred plan
- Develop implementation strategy

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# Finding the Right Balance



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## Assessing Economic Feasibility

### Market Analysis:

- Is there market demand?
- What characteristics should the product have?
- What price points/rents are supportable?
- How fast will the product absorb?

### Financial Feasibility Analysis:

- Do the revenues from a given product cover the cost to deliver, including land and developer profit?
- If not, what type/amount of assistance is needed?

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## Specific Economic Challenges

- Existing downtown is viable but not vibrant—impacts developer cost of land assembly
- Downtown investment tends to be driven by residential; however, great sensitivity to height and density
- Policy decision to avoid TIF financing

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# Valuing Existing Properties

**A:**  
 Good Quality,  
 Centrally  
 Located  
 Building  
 w/Parking

Net Rent/GSF of Building	\$20
- Losses, Mgmt. Fee, & Leasing Exp.	10% of Rent Income
= Net Operating Income/GSF	\$18
÷ Cap Rate	9%
= Value/GSF of Building	\$200
- Est'd. Landlord Work Needed to Re-lease	\$0/psf
= Value/GSF After Build-Out	\$200

**B:**  
 Older  
 Building with  
 Secondary  
 Location &/or  
 Insufficient  
 Parking

Modified Gross Rent/GSF of Building	\$15
- Non-Recoverable Op. Exp. [1]	25% of Rent Income
= Net Operating Income/GSF	\$11.25
÷ Cap Rate	9%
= Value/GSF of Building	\$125
- Est'd. Landlord Work Needed to Re-lease	\$20/psf
= Value/GSF After Build-Out	\$105

[1] Losses, Management Fee, & Leasing Expenses plus taxes & insurance

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# Economic Model Compares:

## 1. Residual Land Value from a Hypothetical Project

- = Total Project Value (sale prices or capitalized value of lease income)
- Demolition/Site Preparation Cost
- Hard + Soft Construction Cost
- Benchmark-Level Developer Fee and Profit

**TO:**

## 2. "Asking Price" for Land

Based on:

- Sales of comparable properties
- Appraisal data
- Prevailing rents

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## Interpreting Results

- **If Residual Value > or ≈ “Asking Price”:**  
Scenario would likely “work” without subsidy if appropriate zoning is in place
- **If Residual Value is significantly < “Asking Price”:**  
Scenario as shown unlikely to “work” without some form of subsidy, increase in density, or reduction in land cost

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## Concept A

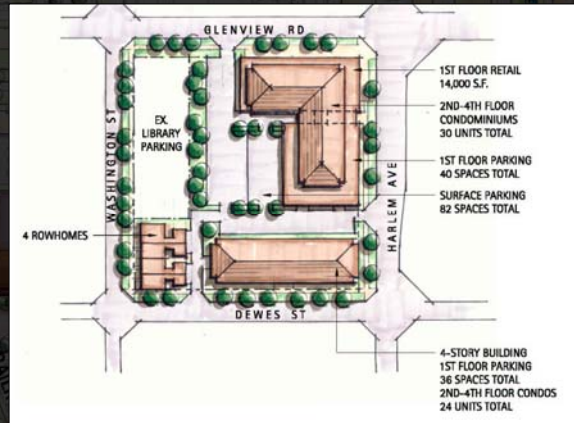


• Buildable within existing zoning

• Economic feasibility result:  
Infeasible

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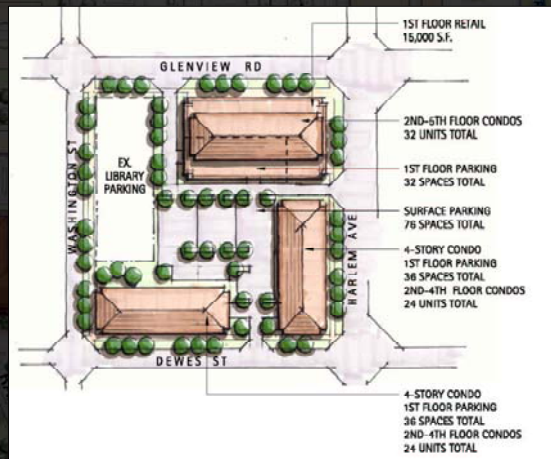
## Concept B



- 4-story maximum height
- Exceeds existing zoning height limits
- Economic feasibility result: may be feasible

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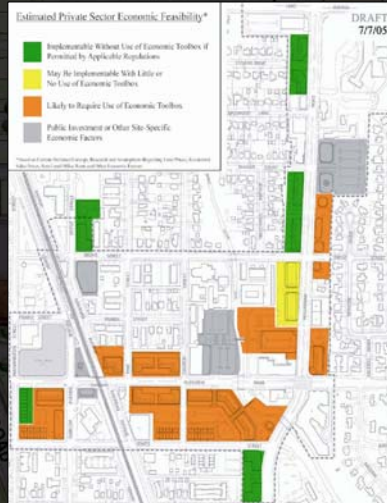
## Concept C



- 5-story maximum height
- Exceeds existing zoning height limits
- Economic feasibility result: highly positive

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# Presenting Feasibility Results



•“Yes, no, or maybe”

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# Public/Private Example



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## Results

- More empirical basis for re-zoning
- Conversation has shifted from the political to the technical
- More nuanced discussion on height/density and feasibility tradeoffs (led to form-based code)
- Extensive developer interest

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## Why This Approach?

- Heightened public/private interaction and scrutiny likely with downtown development
  - Infrastructure improvements/financing
  - Extraordinary redevelopment costs
  - “Gap” financing
- Helps public understand rationale for assisting projects
- Tool for addressing conflicts likely to arise in maturing communities

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## Final Thoughts

- This approach appears to be relatively rare
- Some confusion in planning community on market vs. economic feasibility
- Are there ways to streamline this type of analysis?

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