

MALVERN TOD MARKET EVALUATION AND FISCAL/ECONOMIC ANALYSIS

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November 2013

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Introduction

Purpose

Vantage Point Development Advisors, (Vantage Point), has undertaken a market analysis of mix uses that may be supported in the TOD focus area over the next five (5) years, focusing primarily on office and residential opportunities. Retail opportunities also will be reviewed, but limited to opportunities that support office and residential uses as well as complement (rather than compete with) the existing commercial district. The purpose of the market analysis is to identify the existing and future supply and demand for the Malvern market area and conduct an economic impact and funding evaluation. The Malvern TOD market analysis details the sustainability of future development based on the ability to promote economic development in the market area

Study Area

In the analysis, as detailed below, we have defined Primary and Secondary Market areas for both the residential and retail markets. The Primary Market area for the residential analysis is defined as a 10 minute drive time from the Malvern Septa rail station while the Secondary Market area is defined as 10-30 minute drive west of the rail station. In the case of the residential analysis, the market draw is much larger so the market trade area extends 30-minutes to the west as the Malvern Station offers better rail service than Exton, Downingtown and Thorndale rail stations. The Malvern rail station is the westernmost station on the Paoli-Thorndale line that offers seven-day-per-week service with 30 minute weekday service. Service frequency at the Malvern station is more attractive to potential TOD residents. For the retail analysis, a more local serving market was defined with a 10-minute walk shed and 5-minute drive shed.

Work Completed/Report Organization

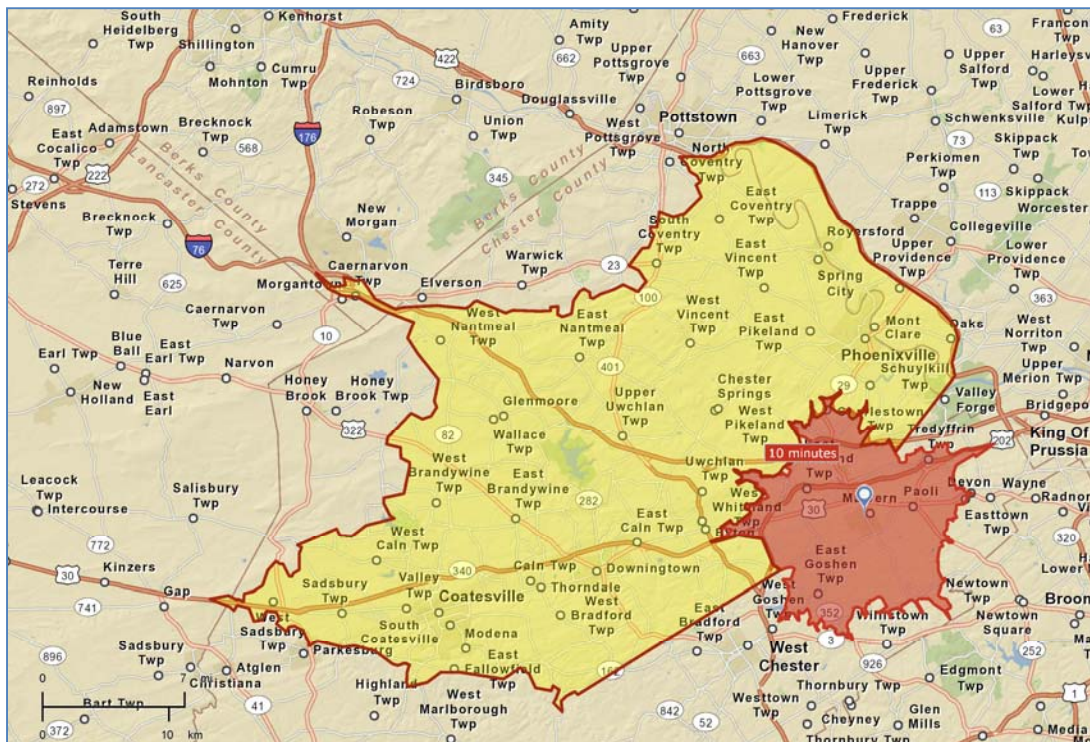
The report below is organized into four main sections, leading off with an analysis of the residential opportunities within the TOD area. The next section analyzes the potential for retail development in the TOD area. The retail is primarily in support of the planned/anticipated residential and office activities. The next section describes the office market and the Malvern TOD Area potential capture of that opportunity. Finally, the report concludes with a discussion of the economic/fiscal impact of TOD and how prospective TOD related development could fund either structured parking and/or Malin Road improvements

Section I. Residential Market Evaluation

Vantage Point has conducted a residential market analysis focusing on the sources of demand for transit oriented housing in the vicinity of the station area. The analysis has focused on a profile of the households within the identified trade areas that likely prefer multifamily residential living near the transit station.

A. Market Area Definition

In the process of our analysis, we have identified Primary and Secondary Market Areas within which the majority of the demand for housing will be derived. The Primary Market Area represents the most closely identified area within which multifamily housing proximate to the station would compete. This includes a proximate **10 minute drive time** from the station area (shown in red on the map below). A larger Secondary Market Area has been defined as a **10-30 minute drive time area west** of the station area (shown in yellow below). This includes households who would desire to take advantage of residential units proximate to the train station area, the improved amenities and services provided, and the high level of transit services afforded by SEPTA at Malvern. This would likely include households who reside west of the Malvern station and could take advantage of improved accessibility to Center City. This market area has been defined as a drive time of 10-30 minutes west of the Primary Market Area as identified in the map below.



B. Demographic Overview

We have evaluated key economic and demographic factors of the households within the Primary and Secondary Market Areas as displayed in the table below. This took into consideration the number of households, the proportion of owner versus renter housing, median age, and median household income. For comparative purposes these economic and demographic factors were compared to the larger Chester County and Philadelphia Metropolitan areas.

Table One: Population, Households, Families, Tenure, Age, Income
 Malvern Primary & Secondary Residential Market Areas, Chester County & Philadelphia Metropolitan Area
 Malvern TOD
 2010-2017

Demographic Variable	Primary Market Area				Secondary Market Area			
	2010	2012	2017	2010-2017 Change	2010	2012	2017	2010-2017 Change
Population	45,086	45,531	46,737	3.5%	283,846	288,548	299,453	5.2%
Households	17,751	17,929	18,401	3.5%	105,636	107,456	111,594	5.3%
Families	12,165	12,245	12,488	2.6%	72,028	72,920	75,097	4.1%
Owner Occupied Housing Units	78.0%	76.4%	77.5%	-0.7%	74.9%	73.1%	73.8%	-1.6%
Renter Occupied Housing Units	22.0%	23.6%	22.5%	2.3%	25.1%	26.9%	26.2%	4.4%
Median Age	45	45	46	46	38	38	38	38
Median Household Income	-	\$ 104,434	\$ 115,262	\$ 10,828	-	\$ 77,259	\$ 86,846	\$ 9,587

Demographic Variable	Chester County, PA				Greater Philadelphia			
	2010	2012	2017	2010-2017 Change	2010	2012	2017	2010-2017 Change
Population	498,886	506,860	525,910	5.1%	5,965,343	6,011,545	6,120,409	2.5%
Households	182,900	185,866	192,784	5.1%	2,260,312	2,275,804	2,323,211	2.7%
Families	129,138	130,742	134,701	4.1%	1,489,044	1,492,539	1,514,648	1.7%
Owner Occupied Housing Units	72.4%	73.9%	73.7%	1.8%	67.6%	68.0%	64.7%	-4.5%
Renter Occupied Housing Units	27.6%	26.1%	26.3%	-4.9%	32.4%	32.0%	35.3%	8.2%
Median Age	39	40	40	40	38	38	39	38
Median Household Income	-	\$ 80,727	\$ 91,000	\$ 10,273	-	\$ 78,256	\$ 90,465	\$ 12,209

Source: ESRI Business Information Solutions compiled by Vantage Point

The Primary Market Area has shown modest population and household growth over the last five to ten years increasing approximately 3.5%. Likewise, households have increased from 17,750 to 18,400, or 3.5%. Housing units in the Primary Market Area are majority owner-occupied with over 75% of units owner-occupied versus 23% renter-occupied. The Secondary Market Area has exhibited stronger population and household growth increasing 5.2% and 5.3% respectively. The share of owner-occupied versus renter-occupied is slightly lower in the Secondary Market Area at 74% to 26% but overall consistent with the Primary. Median household income in both Market Areas is strong, with the Primary Market Area \$115,300 and the Secondary Market Area at \$86,800. Incomes of this level support a

median monthly rent/mortgage payment range of \$1,800-\$2,400. These ranges will be further detailed by household income in the analysis that follows.

C. Demand Analysis

In order to evaluate the demand for residential use s we have examined: 1) Existing/Future Households; 2) Tapestry Segmentation; and, 3) Competitive Residential Developments.

1. **Existing/Future Households.** In order to determine the likely demand for residential units around the transit station, we evaluated the projected change in the number of Primary and Secondary Market Area households by various income profiles reflective of the likely housing costs for development around the Malvern station. We focused on annual household income profiles within a \$60,000-\$150,000 range. Assuming monthly housing costs of approximately 25% of household income (not including utilities), this represents a broad housing costs range of between \$1,250 and \$3,750 per month. This is generally reflective of rental and condominium housing within the market areas including the target monthly rate for the current Eli Kahn

Table Two: Change in Income Distribution by Households
 Malvern Primary & Secondary Residential Market Areas
 Malvern TOD
 2012-2017

Households by Income	2012				2017			
	Primary Market Area		Secondary Market Area		Primary Market Area		Secondary Market Area	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
<\$60,000	5,021	27.1%	42,079	39.2%	3,762	20.4%	33,436	17.9%
\$60,000-\$74,999	1,453	8.9%	9,778	9.1%	1,295	7.0%	10,696	11.7%
\$75,000-\$99,999	2,039	11.4%	15,702	14.6%	2,601	14.1%	20,976	18.8%
\$100,000-\$149,999	3,467	19.3%	20,268	18.9%	3,840	20.9%	23,204	20.8%
Subtotal: \$60,000 - \$149,999	6,959	39.6%	45,748	42.6%	7,736	42.0%	54,876	51.3%
>\$150,000	5,949	33.2%	19,629	18.3%	6,903	37.5%	23,282	20.8%
Total	17,929	100%	107,456	100%	18,401	100%	111,594	100%
Median Household Income	\$104,434		\$77,259		\$115,262		\$86,846	
Average Household Income	\$129,414		\$99,002		\$155,061		\$115,491	

Source: ESRI Business Information Solutions, compound growth rate provided by ESRI.

residential project, which reported monthly rental rates between \$1,600 and \$2,400 per month. As shown in the table below, approximately 40% to 50% of the households within the Primary and Secondary Market Areas fall within these income levels and significant growth in the number of households in these income profiles are assumed to take place.

2. Tapestry Segmentation

The Tapestry Segmentation system classifies households based on their socioeconomic and demographic compositions. Tapestry Segmentation provides a profile of consumers and constituents to more precisely target their spending habits, residential preferences and other lifestyle tendencies and preferences. Segmentation explains customer diversity, simplifies marketing campaigns, describes lifestyle and lifestage, and incorporates a wide range of data.

The Tapestry Table below details the characteristics and lifestyle along with housing preferences of the Primary Study Area and the greater Market Area as a whole within a 30 minute drive of the Malvern Station. Vantage Point performed an evaluation of top household tapestry segments. ESRI Business Information Solutions uses demographic information such as labor force characteristics, median income, age, and spending habits to categorize neighborhoods according to a trademarked Community Tapestry classification system. The following table identifies the top tapestry segments in the Malvern Market Area with tapestry segments grouped by common traits.

Where the retail leakage analysis will specify the type of retail offerings for which there is marketing demand, the addition of Tapestry Segmentation analysis will specify the kind of offering within each larger type.

Table Three: Top Tapestry Segments
 Primary & Secondary Market Areas
 Malvern TOD
 2012

	Primary Market Area		Secondary Market Area		Combined Market Area	
	2012 Number of Households	2012 Percent of Households	2012 Number of Households	2012 Percent of Households	2012 Combined Number of Households	2012 Combined Percent of Households
Instyle	3,819	21.3%	11,820	11.0%	15,639	12%
Connoisseurs	2,779	15.5%	3,761	3.5%	6,540	5%
Urban Chic	2,259	12.6%	2,042	1.9%	4,301	3%
Suburban Splendor	2,241	12.5%	21,814	20.3%	24,055	19%
Wealthy Seaboard Suburbs	1,990	11.1%	1,504	1.4%	3,495	3%
Top Rung	1,542	8.6%	430	0.4%	1,972	2%
The Elders	1,147	6.4%	322	0.3%	1,470	1%
Boomburbs	896	5.0%	9,456	8.8%	10,353	8%
Metropolitans	377	2.1%	1,719	1.6%	2,096	2%
Subtotal	17,050	95.1%	52,868	49.2%	69,919	55.8%
Other Tapestry Segments	<u>879</u>	<u>4.9%</u>	<u>54,588</u>	<u>50.8%</u>	<u>55,466</u>	<u>44.2%</u>
Total Households	17,929	100%	107,456	100%	125,385	100%

Source: ESRI Business Information Solutions, VPDA, 2012. 1/ Other Household Tapestry includes households that are not detailed in

Table 3 and Table 4 further evaluate the characteristics of households within the Primary Market Area by examining selected "Tapestry Lifestyle Households Typologies". These reflect households with specific economic and demographic characteristics and consumer desires and are often utilized by residential developers, retailers and marketers to identify specific target markets.

Table Four: Selected Target Tapestry Segment Characteristics

Malvern Residential Market Areas

Malvern TOD

2012

Tapestry Type	Percent Renter	Median Household Income	Selected Characteristics
Instyle	32%	\$70,745	54% married couples without children. Live in affluent suburban neighborhoods but embrace urbane lifestyle. 14% prefer townhouses.
Connoisseurs	13%	\$121,368	Approximately 70% of the population is married and close to retirement. 30% have children living at home.
Urban Chic	34%	\$87,202	More than half households are married couples. Fewer than half have children. 27% of families live in multiunit buildings.
Suburban Splendor	9%	\$121,661	Married couples with and without children. Large luxurious homes in growing neighborhoods with a median home value of \$388,380.
Wealthy Seaboard Suburbs	11%	\$96,498	Two-thirds of population is married with a median age of 43. Single-family structures comprise 89% of the households with a median home value of \$415,546.
Boomburbs	12%	\$110,681	Boomburbs are the highest concentration of young families with children. Median household income of \$110,681. The homeownership rate is 88%.
Metropolitans	40%	\$60,191	Half of households are single family who live along or with others. 40% are married couples with families. The median household income is \$60,191. Residents prefer multiunit buildings and have a 60% homeownership rate. The median home value is \$192,372.

Source: ESRI Business Information Solutions

3. Competitive Residential Developments

There are several new residential developments in Chester County in proximity to Malvern. Table Six on the following page displays new residential development that is completed, under construction, or planned in the Malvern Residential Market Area.

Eli Kahn Development Company, Corner Stone Communities and the Toll Brothers are currently developing a four acre property within walking distance to the Malvern Station. The new residential/retail development site located at 237 East King Street will be called the Eastside Flats. The proposed development will include 190 apartments and 25,000 sq ft of retail space. Retail space will occupy street level frontage while multi-family units will occupy the three

stories above it. The multi-family units will be designed as Class “A” with amenities like onsite pool, fitness center, business center and restaurants.

The development will include landscaped sidewalks and will create a strong interest for restaurants and sidewalk cafes in a TOD setting. The Eastside Flats residential and retail project is expected to be complete by summer of 2013.

The Apple Brook Meadows Community developed by the Toll Brothers offers townhomes between 2,100 to 2,600 sq ft with a price range of \$440,000 to \$500,000. The Apple Brook Community is within a ten minute drive to the Malvern Station and offers new development.

Church Court is a residential development area developed by the Tag Brothers within a 10 minute walk of the Malvern Station. Church Court offers townhomes between the sizes of 2,000 to 3,000 sq ft with a price range of \$400,000 to \$450,000.

Apple Cross Country Club Carriage Homes developed by Pulte Homes offer multi-family townhomes between 2,300 to 3,100 sq ft with a price range of \$414,000 to \$432,000. The closest station to Apple Cross is the Downingtown Station but is within a 30 minute drive to the Malvern Station.

Table Five
 Estimated Rent Levels
 Malvern Primary & Secondary Market Areas
 Malvern TOD
 2012

Apartment Type	Rent Levels	
	Range	Average
1-Bedroom	\$900-\$1,500	\$ 1,200
2-Bedroom	\$1,000-1,800	\$ 1,400

Source: VPDA; Zillow.com, Forrent.com

Table Six
 New Residential Development
 Chester County, PA in Proximity to Malvern
 2012

Development Name	Developer/Builder	Proximate Station	Type	Price Range	Size Range (Sq Ft)
Apple Brook Meadows	Toll Brothers	Malvern Station	Townhome	\$440,000-\$500,000	2,100-2,600
Church Court	Tag Brothers	Malvern Station	Townhome	\$400,000-\$450,000	2,000-3,000
Apple Cross Country Club Carriage Homes	Pulte Homes	Downingtown Station	Multi-Family Townhome	\$414,000-\$432,000	2,300-3,100
Apple Cross Country Club Estate Homes	Pulte Homes	Downingtown Station	Single Family	\$510,000-\$567,000	4,000-4,600
Oakcrest	Ryan Homes	Thorndale Station	Single Family	\$190,000-\$270,000	1,400-3,100

Source: VPDA, LLC compiled with Ryan Homes, Trulia.com, Ryvenco.com

The only significant planned residential project within the primary residential market area are 753 apartments planned as part of the Uptown Worthington mixed-use development project, located about 2 miles or a five minute drive time from the Malvern train station.

This mixed-use project is proposed to also have 655,000 ft.² of retail space, 224,000 ft.² of office space and two 125 room hotels. The project is anchored by a Wegmans Supermarket and Target Store which opened in July 2010. There is no firm schedule for the apartment development which is proposed to be constructed in three approximate equal phases. As currently envisioned the apartments are identified as seven-story luxury apartments. There is an approval issue, as it is our understanding that 50% of the units are required to be for sale, with the developer asking for this restriction to be waived, indicating that the apartments are more fitting in the current market environment and all the units are designed to be converted to condominiums over time.

Comparison of Market Data
Malvern - Worthington Residential Market Areas
2012-2017

Primary & Secondary Drive Time Population	Malvern Population	Worthington Population
2012 Primary Market Area	45,531	62,960
2012 Secondary Market Area	<u>288,548</u>	<u>1,408,276</u>
Combined Market Areas	334,079	1,471,236
Worthington Retail Published Market Area Data		Worthington Population
<i>Worthington Published Retail Market Area Data</i>		<i>733,750</i>
(2012) 13 Mile Radius	-	746,837
(2012) 24 Minute Drive Time	-	709,588
(2012) 25 Minute Drive Time	-	806,637
2012-2017 Change in Household Income Primary & Secondary Market Areas \$60,000 - \$150,000	Malvern Households	Worthington Households
Primary Market Area	777	1,040
Secondary Market Area	<u>9,128</u>	<u>36,476</u>
Total	9,905	37,516

Source: ESRI Business Solutions compiled by VPDA, LLC

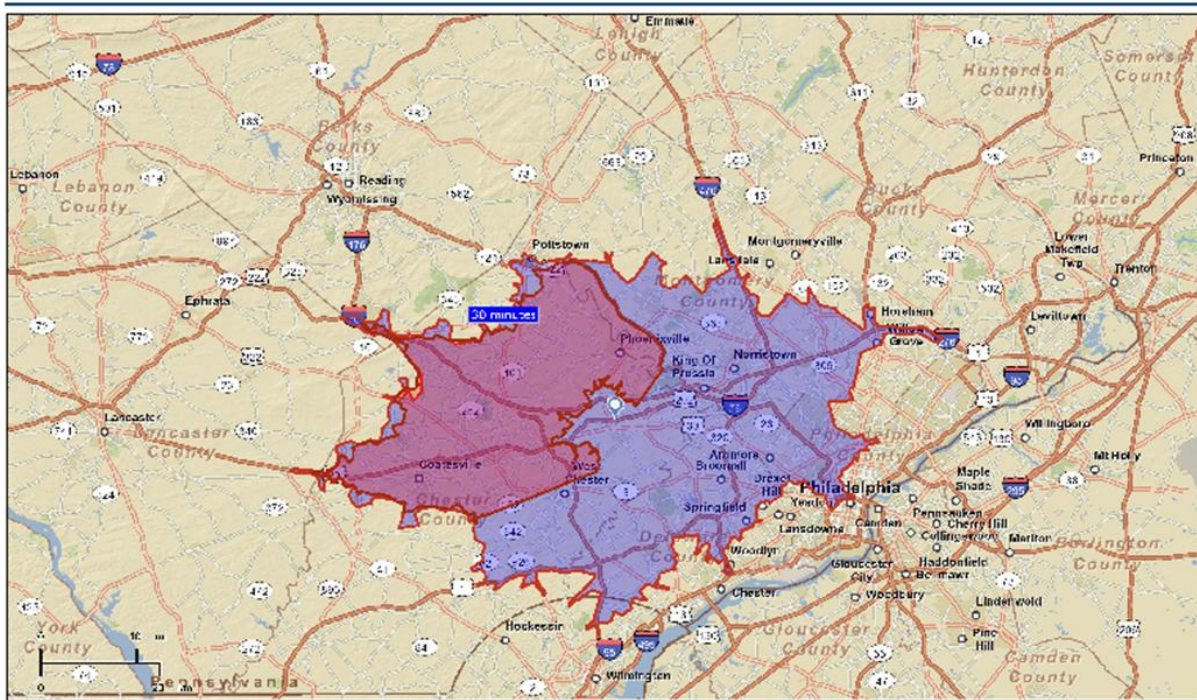
The residential project is located within the Malvern primary residential market area and has been taken into consideration in our market evaluation. We perceive that the Worthington project located proximate to the highway network as opposed to proximate to the rail station

will serve a significantly different market than the smaller scale, more community/transit related residential developed near the train station. The attached comparison of our understanding of the primary and secondary residential market areas for the Malvern TOD and the Worthington mixed-use project, displays a significantly different market orientation.



Malvern and Worthington

30 Minute Drive Times

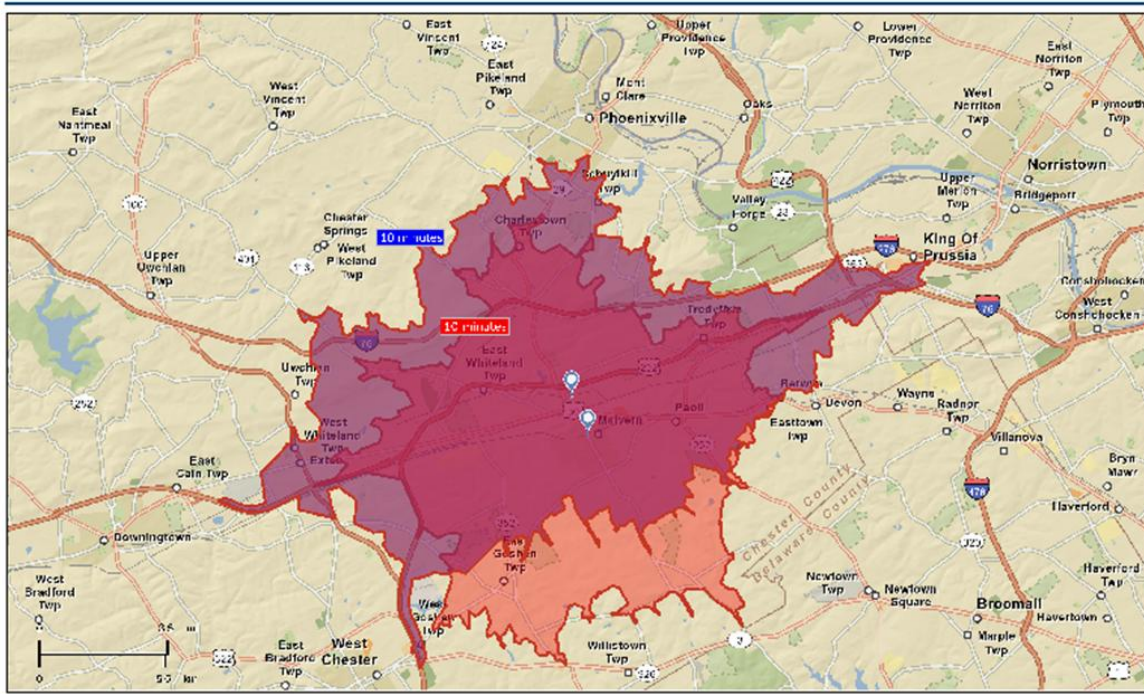


- Malvern Only
- Worthington Only
- Malvern/Worthington



Malvern and Worthington

10 Minute Drive Time



The primary residential market area for the Malvern TOD has a smaller geographic area and population because of better highway access serving Worthington. The Malvern primary market area is oriented more to the south while the Worthington primary market area is oriented more to the north, east and west and is approximately 50% larger. There is a difference in our understanding of the secondary market residential areas which would be served by the two projects. We envision that the Malvern TOD project would be oriented to persons taking advantage of rail access/enhanced rail service to Center City and consists primarily of households residing West of Malvern. The Worthington project is much more highway-oriented and serves a significant larger secondary housing market area that is not focused on improved rail access to the Center City. This more highway/suburban oriented market is four times larger than that for the Malvern TOD project. Furthermore, primarily for retail marketing purposes the Worthington project has defined its market area consisting of a population of approximately 3/4 of 1 million people, representing approximately a 24 to 25 minute drive time. We also examined the tapestry household characteristics of both the Malvern and Worthington residential market areas. The Malvern market area is much more oriented towards In Style, Urban Chic lifestyle

clusters which are more oriented toward a TOD type residential project. The Worthington residential market areas are more oriented toward Connoisseurs, Wealthy Seaboard Suburbs and Boomburbs tapestry segments which would be more oriented towards suburban mixed-use projects containing luxury retail as is being targeted by Uptown Worthington.

Top Tapestry Segments
Malvern & Worthington Primary & Secondary Market Areas
Malvern TOD
2012

Tapestry Segments	Malvern		Worthington	
	Primary Market Area	Secondary Market Area	Primary Market Area	Secondary Market Area
	2012 Percent of Households	2012 Percent of Households	2012 Percent of Households	2012 Percent of Households
Instyle	21.3%	11.0%	24.0%	6.9%
Connoisseurs	15.5%	3.5%	11.9%	5.9%
Urban Chic	12.6%	1.9%	9.4%	4.2%
Suburban Splendor	12.5%	20.3%	13.1%	8.5%
Wealthy Seaboard Suburbs	11.1%	1.4%	9.5%	6.1%
Boomburbs	<u>5.0%</u>	<u>8.8%</u>	<u>9.5%</u>	<u>4.1%</u>
Subtotal	78.0%	46.9%	77.4%	35.7%
Other Tapestry Segments	<u>22.0%</u>	<u>50.8%</u>	<u>22.6%</u>	<u>64.3%</u>
Total Households	100.0%	100.0%	100.0%	100.0%

Source: ESRI Business Information Solutions

Given the different market orientations and residential market areas, it is not perceived that the Worthington project would significantly impact the estimated target residential market for the Malvern TOD. The estimated market capture rate and 10 year demand for the Malvern TOD residential use accommodates the Worthington and other potential competitive residential projects in the Malvern TOD primary and secondary residential market areas.

D. Market Potential

In order to determine the potential target market for residential uses proximate to the train station we examined the average annual change in the number of households within the Primary and Secondary Residential Market Areas that have household incomes that would attract them and generate sufficient income to afford likely monthly housing costs that would be incurred at such developments. Three

income cohorts and target monthly housing cost categories were identified; households with incomes of between:

- \$60,000 and \$74,999 = monthly housing costs of \$1,250 to \$1,549
- \$75,000 and \$99,999 = monthly housing costs of \$1,550 and \$2,079
- \$100,000 and \$149,999 = monthly housing costs of \$2,080 and \$3,125

For each of these income cohorts, a target market potential proportion has been estimated. This takes into consideration the income levels, tenure (rental versus sales), housing preferences and proportions of the targeted tapestry segments by the various income cohorts. For the \$60,000-\$74,999 cohort the proportion and characteristics of Metropolitan and In Style tapestry types were examined and a proportional market target rate established. For the \$75,000-\$99,999 income cohort, the proportion and characteristics of the In Style, Urban Chic and Wealthy Seaboard Suburbs were examined. Tapestry segments evaluated and target market capture proportions for the \$100,000 - \$149,999 income profile were derived from the Boomburbs, Connoisseurs, and Suburban Splendor tapestry segments.

Table Seven: Total & Average Annual Change In Households by Selected Housing Income
 Primary & Secondary Residential Market Areas
 Malvern TOD
 2012-2017

Annual Income	Monthly Housing Cost	Primary Market Area		Secondary Market Area		Combined Market Areas	
		5 Year	Average Annual	5 Year	Average Annual	5 Year	Average Annual
\$60,000-\$74,999	\$1,250 - \$1,549	0	0	920	180	920	180
\$75,000-\$99,999	\$1,550 - \$2,079	560	110	5,270	1,050	5,830	1,170
\$100,000-\$149,999	\$2,080 - \$3,125	370	70	2,940	590	3,310	660
Total		930	180	9,120	1,820	10,060	2,010

Source: ESRI Business Information Solutions. Estimated by Vantage

Notes: Figures Rounded

In evaluating potential for new units any negative change was adjusted to zero. Negative change does not reduce potential for new units.

This process served to identify the Primary and Secondary Market Area housing potential by price level on an annual and 10 year basis taking into consideration household income, household characteristics, household lifestyle and housing preferences. An estimate of potential market demand or capture for each of these target price levels was made based upon approximately a 30% market share within the Primary Market Area and a 15% market share for the larger and more distant Secondary Market Area. This analysis results in projected 10 year absorption of approximately 870 units, with two-thirds to three-fourths of the demand in the approximate \$1,500-\$2,100 per month housing costs with the

remaining demand potential approximately evenly distributed between monthly housing costs of between \$1,250-\$1,500 and \$2,100 and \$3,150, respectively.

Table Eight: Potential TOD Area Rental Market
 Primary & Secondary Housing Area Potential and Estimated Demand by Monthly Housing Cost
 Malvern TOD

Monthly Housing Costs	Primary Market Area				Secondary Market Area			
	Average Annual Change	Target Market Potential	Annual Potential	10 Year Potential	Average Annual Change	Target Market Potential	Annual Potential	10 Year Potential
\$1,250 - \$1,549	0	37.0%	0	0	180	40%	70	700
\$1,550 - \$2,079	110	28.0%	30	300	1,050	30%	320	3200
\$2,080 - \$3,125	70	11.0%	10	100	590	10%	60	600
Total	180	21.0%	40	400	1,820	25%	450	4,500

Note: Numbers in table have been rounded.

Source ESRI Business Information Solutions, estimated by Vantage Point

E. Potential Market Capture/Recommended Range of New Housing

Based upon the potential growth of households in the renters and owners market for the Primary and Secondary Market Area, a range of new housing options will be sustainable in the Malvern Residential Market Area. Based upon the 2012-2017 projections, the total Primary and Secondary Market Areas can support 4,900 new housing units over the coming 10-year period. The Malvern project area is projected to capture 800 units over that same 10 year period.

Table Nine: Project Area Capture
 Malvern Project Area Housing Capture Potential by Monthly Housing Cost
 Malvern TOD

Monthly Housing Costs	Primary Market Area			Secondary Market Area			Primary + Secondary Total 10 Year Potential	10-year Project Area Capture
	10 Year Potential	Project Area Capture	Total Potential Capture	10 Year Potential	Project Area Capture	Annual Potential		
\$1,250 - \$1,549	0	30.0%	0	700	15.0%	110	700	110
\$1,550 - \$2,079	300	30.0%	90	3,200	15.0%	480	3,500	570
\$2,080 - \$3,125	100	30.0%	30	600	15.0%	90	700	120
Total	400		120	4,500		680	4,900	800

Note: Numbers in table have been rounded.

Source ESRI Business Information Solutions, estimated by Vantage Point

The size of potential dwelling units in Malvern should be proportional to that of existing, new, or planned units in the area. The square footage for rental units should be on average 1,000 sq ft and the square footage for owner units should be on average 2,200 sq ft. There are existing, new, and planned residential development in the Malvern Residential Market Area; suggested rent and price ranges should be more competitive to appeal to the renters and buyers based on price per square foot.

The average price per square foot in the Malvern Residential Market Area for rental units is \$1.30 per sq ft and the average price per square foot for owner units are \$189.00 per sq ft. However, new residential development in the Malvern Market Area with structured parking and proximate to the train station should be more competitive for rental units and thus can offer higher rental rates at \$1.80 per sq ft. Offering competitive prices per square foot will attract consumers as they will get more space for their dollar.

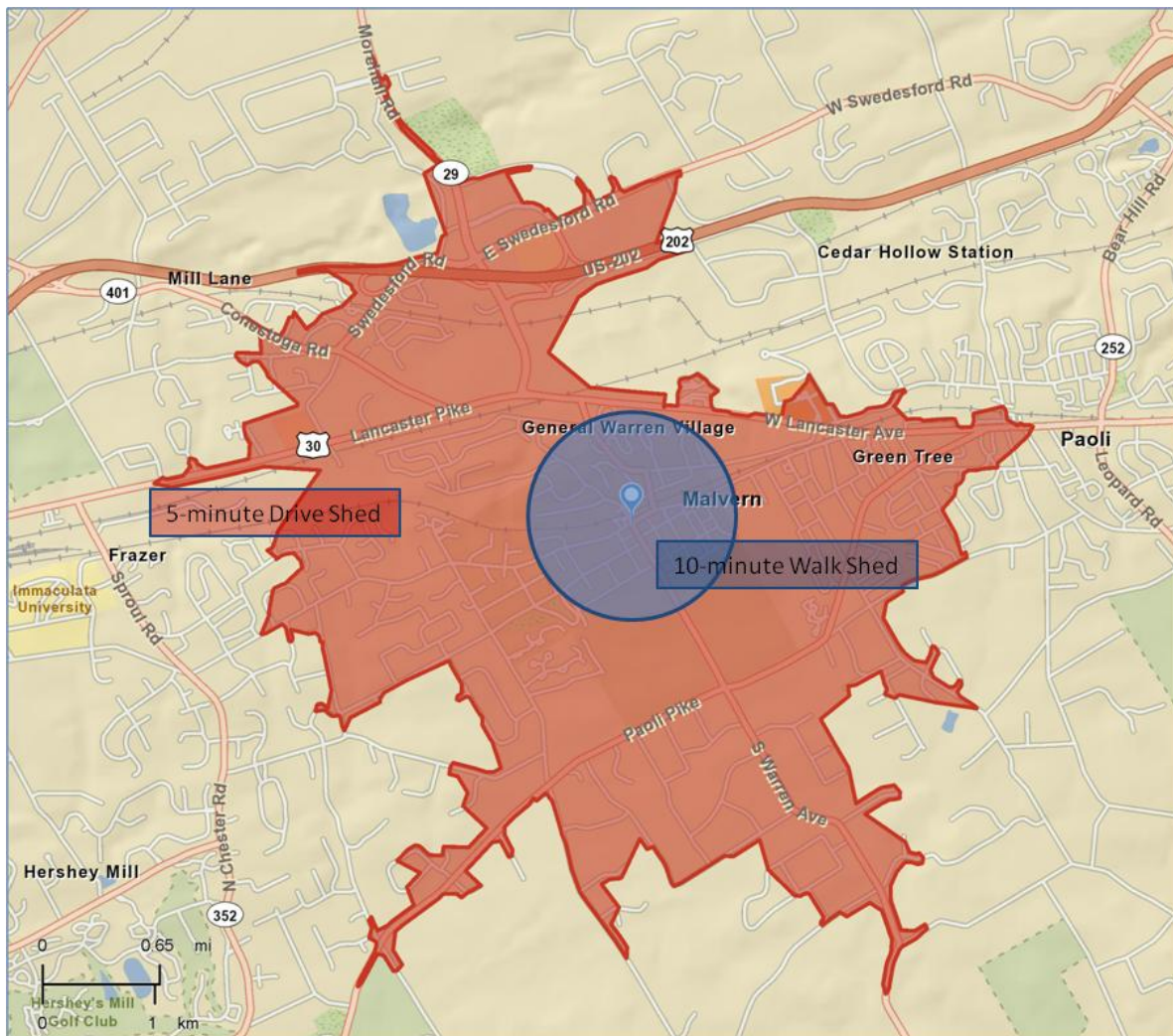
Consumers in the housing/rental market consider various factors that influence their decision on where they will reside. Amenities are often a major asset to properties as they add additional value to consumers. The amenities offered at new dwelling units in the Malvern Market Area should be comparable to the amenities offered at existing, new and planned residential developments. Amenities should include onsite pools, fitness centers, business centers and other types of sites for extracurricular activities that appeal to the tapestry of the target market.

Section II. Retail Market Evaluation

A. Market Area Definition

In evaluating the retail market potential in the station area, we conducted field surveys of the area and interviewed selected retailers, realtors and developers. We conducted a general inventory and field survey of retail establishments in the TOD area and identified the location of competitive retail nodes. Based upon this analysis and generally accepted criteria for retail market evaluations, we delineated any competitive retail market area which constitutes the supply of retail space in the TOD area.

The Primary Trade Area was defined as the generally accepted ten-minute walk shed for TOD (1/2 mile radius). Similarly we identified a Secondary Trade Area from which we perceive the preponderance of market sales will be derived. The general area is well served with retail including the food and convenience concentration at the nearby Wegmans, in the various concentration of retail in the nearby town centers, and the superregional concentration of



comparison retail shopping at Exton/King of Prussia. Given this highly competitive market area the primary demand market area was defined as a five-minute drive shed from the transit station. See map below.

B. Market Area Characteristics

Based upon examination of the retail establishments, evaluation of the prevailing lease rates and number of employees the sales estimates appear reasonable. Given that net lease rates are in the \$18-\$21 range and a total of 303 employees, the sales volume appears reflective of the lease rates and number of employees. These sales performances reflect an approximate average sale per square foot of \$225 which is consistent with the lease rates and the number of employees. Typical of traditional Main Street downtowns, there is a concentration of retail sales in food services, and food and beverage places. The area is somewhat unique in having strong representation in clothing, accessories, health and personal care stores reflecting long time established businesses.

We compiled primary and secondary information on the estimated retail establishment mix, retail employment, retail occupancy, lease rates and likely sales levels of retail establishments within the half-mile walk shed. There is a total of 51 establishments employing an estimated 303 employees and generating retail sales of approximately \$33.6 million as shown in the accompanying table.

We have also estimated the retail expenditures that would be made by household within the five-minute drive shed. Retail goods and service expenditures for the average household is distributed through disposable income. The average household's disposable income accounts for 60% of the total income. The average household retail expenditure is 40% of the household's disposable income. Retail expenditure is then distributed into subcategories of retail that includes convenience goods, shopper's goods, restaurants, and online shopping. The average expenditure percentage of disposable income by retail category rate for each retail sub-category is as follows:

- Convenience Goods-40%
- Shoppers Goods-20%
- Restaurants-20%
- Online Shopping-20%

As shown in Retail Table 1, there is approximately \$163 million in retail expenditures and the TOD area is on average capturing 21% of the demand. This reflects a relatively strong presence in furniture and home furnishings, electronics and appliances, health and personal care stores, clothing and clothing accessories and miscellaneous store retailers. This approximate 21% capture rate reflects a reasonable average of similar locations. Potential future growth in retail sales will be primarily dependent upon attracting additional households and household income within the immediate area. Retail in the TOD area is operating in a highly competitive market environment and expansion is constrained by available parking capacity for retail operations. Parking is at times over capacity, particularly during the peak shopping and retail expenditure (eating and drinking) timeframe.

A major change in the area retail market is the introduction of the Eli Kahn project which will introduce 190 apartment units, 25,000 square feet of retail space and approximately 400 parking spaces to support both the apartments and

the expanded retail space. Based upon discussions with the developer and our understanding of the project, we would estimate the retail component of the project would generate approximately an additional \$6.3 million in retail sales, advancing the walk shed's retail sales to almost \$40 million. At the same time, the 190 residential units based upon their price structure, would likely increase retail expenditures by approximately \$11.2 million to a total of \$174.5 million within the five-minute drive shed area. The concomitant impacts of the increase in retail sales and the increase in retail sales expenditure potential would advance the average retail sales capture rate from 20.6% to 22.9%. This increase in the average capture rate seems generally reasonable given the proximity of the new residences within the five-minute drive shed.

Each new residential unit will support additional retail sales which translates into additional square feet/unit. To calculate this SF/unit we are using the Khan project as a guide. The average rental rate for that project is \$1.80/SF, or approximately \$2,000 per apartment unit (eg household). Based on the typical share of housing costs to total income of 25%, the household income of tenants of the Khan project is \$95,000/year, ($\$2,000/\text{month} * 25\% * 12 \text{ months}$). On average, 60% of household income is spent on consumer goods, in this case equating to \$57,000/year/tenant. Using a midpoint capture rate from the paragraph above of 22%, the study area should capture approximately \$12,500 per household. The final step is to convert sales capture into square feet, which is done by dividing sales by sales/SF. The average retail sales per SF is \$250/SF, which when divided into \$12,500/households equates to 50 SF per household.

C. Retail Market Potential

Future growth in retail sales and supportable retail space would primarily be a function of introducing additional residential units within the primary market area and ensuring that there is additional parking to support increased sales and retail space. Assuming that future residential had a similar price level as the current Kahn project and the area was able to maintain its retail sales capture rate, each additional residential unit would support approximately 50 square feet of expanded retail space most likely concentrated in food stores and eating and drinking places (the surveys conducted in the rail area indicated a strong desire for a bakery. Based upon typical retail expenditure patterns only 1.7% of the supportable square footage would be devoted to bakery stores. Theoretically, it would take an additional 1,400 dwelling units to support a 1,200 square foot bakery).

In essence, the proportion of supportable retail space that would be created by new residential development would represent only 4% to 5% of the combined residential and retail space use. Assuming 50 square feet of retail for each residential unit of 1,000 square feet, expansion of the retail sales capture rate would be difficult in the competitive environment in the area and would be dependent on expansion of parking to support additional sales from persons beyond the immediate walk shed and primarily within the five-minute drive shed.

Retail Table 1

Malvern TOD Retail Analysis 2012					
Supply: 1/2 Mile Walkshed and Demand: 5-minute Driveshed					
Industry Summary	Firms	Employment	Supply (Retail Sales)	Demand (Retail Potential)	Capture
Auto Parts, Accessories & Tire Stores	3	14	\$499,625	\$2,591,757	19.30%
Furniture & Home Furnishings Stores	3	27	\$6,668,072	\$4,323,735	154.20%
Electronics & Appliance Stores	1	9	\$5,996,179	\$5,266,871	113.80%
Bldg Materials, Garden Equip. & Supply	2	12	\$673,885	\$6,542,740	10.30%
Food & Beverage Stores	3	26	\$4,690,600	\$31,034,580	15.10%
Health & Personal Care Stores	4	16	\$2,262,451	\$5,147,019	44.00%
Clothing & Clothing Accessories Stores	8	24	\$2,790,354	\$5,173,078	53.90%
Sporting Goods, Hobby, Book & Music	1	4	\$227,816	\$20,398,510	11.20%
General Merchandise Stores	0	0	\$0	\$14,798,827	0.00%
Miscellaneous Store Retailers	13	39	\$1,608,223	\$3,446,182	46.70%
Food Services & Drinking Places	10	132	\$6,047,278	\$21,568,600	28.00%
Total/Average %	51	303	\$33,635,088	\$163,271,498	20.60%
Source: ESRI Business Analyst and Vantage Point Development Advisors, LLC					

Section III. Office Market Evaluation

A. Market Area Definition

Vantage Point has undertaken an evaluation of the potential for office related uses within the TOD area. This has included a review and assessment of professional office space within the immediate station area and within a five minute drive time in the context of the identified Exton/West Chester submarket area and the overall office market for the Philadelphia Metropolitan area. This included an examination of traditional office related uses in similar environments. Our analysis included a review of establishments and employment in professional services, finance, insurance and real estate, management companies, information technology, and healthcare and social assistance.

B. Market Area Characteristics

As shown in the accompanying table, the immediate five-minute walk shed of the station area contains 38 office-related businesses with 395 employees. This represents about 13% of the establishments and 9% of the office related employment within a five minute drive time of the station area.

Office-related employment constitutes approximately 26% of the employment within the five-minute walk shed. An additional 20% of employment is in retail trades, 17% in construction, 13% in manufacturing and the rest of the employment scattered among various industry types.

The three largest office employers which have between 35 and 70 employees each are Hunt Engineering, Baker Industries, and Community Solutions. Other larger employees (with between 50 and 100 employees) are in manufacturing (the Cimberio Valve Company), and construction (Legnini RC and Applied Energy).

The overall Philadelphia office market has a significantly high vacancy rate. There is a vacancy rate of over 20% with 29,000,000 square feet of space available in the marketplace compared to an annual absorption of less than 1,000,000 square feet per year (theoretically a 29 year supply).

Malvern is within the Exton/West Chester sub market which has over 850,000 square feet of office available with a vacancy rate greater than the region's of 23%. Annual net absorption to date this year was less than 10,000 square feet.

There is less than 100,000 square feet of space under construction in the entire metropolitan office market. There is generally a flight toward higher-quality space and securing the best available space with long-term highly competitive deals. Many financial institutions and investors are taking back buildings in default and new owners are taking advantage of significant discounts and spending cash to improve buildings and building efficiency and enticing potential tenants with aggressive deals. No speculative space is being erected other than in Center City and the University Area.

There are however a number of build-to-suit projects that are being completed. Eli Kahn has preleased his 86,600 square foot office project within the five-minute drive time market area as a result of a build-to-suit deal with Cube Smart.

C. Office Market Potential

There is unlikely to be a speculative office development within the TOD market area other than potential small street level retail type local-serving office uses. Any office buildings that would likely be built would be build-to-suit projects to existing tenants in the market area and/or individuals and establishments who have a desire to be within the area. The likely size of any build-to-suit building would likely involve an office user with approximately 100 employees. With a likely employment density of 3 to 5 employees per thousand square feet, this would involve approximately a 20,000 square foot office building. We envision 1 or 2 build-to-suit opportunities within the market area for a midpoint of approximately 30,000 square feet. This office potentially would be dependent upon suitable sites being identified at land acquisition rates and development costs consistent with the current marketplace of \$20-\$25 per net square foot rents.

Section IV. Economic Impact/Funding Evaluation

Based upon our market analysis, we have also evaluated the likely financial viability and prospective economic/fiscal impact of TOD and how prospective TOD related development could fund either structured parking and/or Malin Road improvements.

A. Overview

1. Financial/Funding

Based on our market evaluations of the likely rental rates for residential projects (approximately \$1,900 per month for a 1,000 to 1,100 square-foot unit) and the likely lease rates for nonresidential uses (\$20-\$25 per net square foot lease rates) and likely land acquisition costs, we have examined the financial viability of the projects and their ability to support structured parking and/or off-site road improvements such as Malin Road.

It is our understanding that based on our market analysis, projects will require FARs in the order of magnitude of 1.35 or approximately 50 residential units per acre in order to “afford” (provide a financially viable project) given the likely development costs, land acquisition costs and the cost of the required structured parking (1.8 spaces/1,000 square feet considering the reduction in parking because of proximity to the rail station). The factors, however, will not result in additional funds available to help pay for off-site road improvements such as Malin Road.

We have evaluated the ability of the incremental taxes generated by market supportable new development to fund structured parking and/or road improvements. Based upon the estimated lease rates and a capitalization of net operating income into economic value/fair market or assessed value, we have estimated the potential assessed values and real property tax revenues generated based upon the current millage rate of \$3.9697.

The estimated rental rates of approximately \$1,900 month assuming a 33% operating cost and an economic value based upon an “overall” return of 8% would generate a per unit economic value of approximately \$190,000 per unit. Non-residential value assuming the midpoint of the \$20 to 25 net lease amounts and a similar 8% return would generate economic values of approximately \$250,000 per 1,000 square feet.

2. Economic/Fiscal Impact

Based upon our estimated market supportable development program which would include approximately 800 dwelling units, 40,000 square feet of retail space and 30,000 square feet of office space, annual property tax revenues (at the current millage rate) of approximately \$648,000 will be generated by this increment of value, assuming that the existing property values average 10% of the new values created. This will represent approximately \$571,000 from residential uses and \$77,000 from non-residential uses. The development would also result in an additional 800 households and approximately 80 retail and 120 office employees (excluding any relocation of existing employment or residents within the study area that was not reoccupied by other users).

3. Potential Funding

Assuming all of the incremental property tax revenues were allocated to 20 year tax exempt bonds (4.5 percent interest rate) to support capital improvements approximately \$8.4 million in capital improvements could be amortized over a 20 year timeframe.

B. Funding Evaluation of Malvern TOD

1. Introduction

Development at Malvern station may be utilized to support desirable infrastructure improvements within the borough. According to the Malin Road study, improvements have been estimated to total nearly \$20,000,000. Intersection improvements at Warren and Pennsylvania Avenues totals approximately \$2,000,000 and Malin Road Extension approximately \$15,000,000.

At the direction of Whitman, Requardt & Associates, Vantage Point has been tasked with analyzing “value capture” and infrastructure funding opportunities from TOD scenarios including those that could generate revenues sufficient to finance these improvements. The following summarizes funding and TOD strategies and the methodology by which Vantage Point analyzed financing potential based on development options, TIF financing, and Development Proffers.

2. Methodology

The methodology used to evaluate financing capacity relative to potential TOD area value capture assumes the most likely funding strategies including actual or “virtual” T-I-F and in additional could include “reasonable” developer contributions or fees and generally follow the outline below.

I. Define potential funding sources:

- a. ***Tax Increment Financing:*** Based on the incremental taxes generated by the new development, Vantage Point has evaluated the potential long-term financing options for infrastructure improvements. In the analysis, Vantage Point looks at the financing options realized from incremental tax revenues both in combination with the market based development program and more aggressive development options and with and without developer fees.
- b. ***Developer Contribution:*** Developer contributions are considered a supplementary method to increase revenues such that infrastructure improvements in the borough can be financed long term. In the analysis, Vantage Point considers varying most likely developer fees/contributions, tied to the

development program to determine the impact the revenues may have on the long-term financing potential of improvements. We have also identified the level of contributions required to address certain funding levels.

II. Most likely market/development program:

In the analysis, Vantage Point uses the initial market projections made in previous analyses. The baseline market development program includes 800 residential units, 30,000 square feet of office space, and 40,000 square feet of retail over a ten year time frame. In the analysis, we have adjusted the market based development program by varying degrees to determine the development program required to finance \$20 million in infrastructure improvements in consideration of varying levels of TIF financing and developer contribution. Note the 190 units in the Eli Khan project are included in the 800 units. We have noted the financial impact of these units not supporting TIF or developer contributions, as appropriate.

III. Alternative High Rise Program

The client has asked us to examine a higher density high-rise development program. It is our judgment that such a development scenario would require additional development costs and hence premium rental rates 20% above the current market. It is our understanding that there currently is not sufficient market support for these types of units at these price levels. Nevertheless, assuming no market constraints, we have evaluated the number of high-rise units and associated retail and office space that would be required to support \$20 million in infrastructure. Similar to the other scenarios we have assumed that infrastructure funding will be derived from tax increment revenues generated and potentially additional revenues from reasonable developer contribution.

IV. Financing/Funding Note:

- a. Borough will have to credit enhance to finance the infrastructure through future TIF and developer contributions and will require an upfront funding risk.
- b. However, over time, through fixed annual debt service, debt retirement, accelerated property values, and potential other benefits could likely be compensated for this risk.

V. Evaluation of time frame required to fund \$20 million (Extrapolation of market findings)

To evaluate the various alternatives by which nearly \$20 million in infrastructure improvements may be funded, Vantage Point analyzed the impact of varying revenue sources based on several development programs at the Malvern station area. Vantage Point utilized the development program from our market projections as the base case for development. The development program in turn quantified potential revenue realized from developer contributions, and incremental tax collections. Further, Vantage Point analyzed the potential impact of varying degrees of developer contributions, and the ability to finance the infrastructure improvements by seeking greater revenue from the developer to support long-term improvements.

3. Summary

Below is a summary of each of the five scenarios (some of which ignore current market and financial constraints), identifying the amount of infrastructure that could be supported, the number of units/level of development that would be required to support the infrastructure, and as appropriate key project parameters which would need to be achieved in order to support the targeted infrastructure amounts.

- As noted below the base case 10 year market forecasts supports about half of the \$20 million infrastructure target (adjusting for the Khan project less than 40% would be supported).
- Ignoring market constraints, but keeping other assumptions constant, the number of units would have to increase by 70-130% to 1,362 – 1,867 units to support \$20 million in infrastructure. Adjusting for the Khan project an additional 190 would be required.
- Assuming the 800 units and ignoring financial constraints, increasing developer fees from 2% of development value (\$3,800/unit) to 7% of development value (\$13,300/unit) would support \$20 million in infrastructure. (Assuming the Khan units did not contribute the developer fees would have to be increased to approximately 9% or \$16,625)
- Under the high-rise development program approximately \$20 million in infrastructure could be supported by 800 units. However, those 800 units would have to be marketable at a 20% premium above our initial market findings (\$1,900/month vs. \$2,280/month).
- Finally, if our market evaluation was extrapolated over time at the 80 unit a year pace under our current market assumptions, the \$20 million in infrastructure could be supported by 1,440 units which would be absorbed over an 18 year time frame. (adjusting for the Khan project the market absorption time would extend to 20 years).

Scenario 1: Base Case (10 Year Market Forecast)

Building Program: 800 Residential Units, 30,000 SF Office, 40,000 SF Retail

Financing Capacity: \$8.5-\$11.7 Million (adjusting for the Khan project: \$6.4-\$8.8M)

Scenario 2: Required Development Program (No Market Constraint)

Building Program: 1,362-1,876 Residential Units, 51,000-70,000 SF Office, 68,000-93,400 SF Retail (this is in addition to the units in the Khan project)

Financing Capacity: \$20 Million

Scenario 3: Required Developer Fee, 10 Year Market (No Financial Constraints)

Building Program: 800 Residential Units, 30,000 SF Office, 40,000 SF Retail

(7% Developer Fee - \$3,800/unit vs. \$13,300/unit) (Adjusting for the Khan project: 9% fee or \$16,625)

Financing Capacity: \$20 Million

Scenario 4: High Rise Program (No Market Constraints)

Building Program: 800 Residential Units, 30,000 SF Office, 40,000 SF Retail

(20% Premium Rents - \$2,280 Per Month Residential vs. \$1,900 Per Month Market Rate)

Financing Capacity: \$20 Million

(note: No adjustment for the Khan project)

Scenario 5: Extrapolated Market Findings Over Time to Support \$20M

Building Program: 1,440 Residential Units, 54,000 SF Office, 72,000 SF Retail (18 Years @ 80 Units/Year)

Financing Capacity: \$20 Million (Adjusting for Khan project, 20-year time required)

Table 1. Summary Financial Capacity

Scenario	Basic Assumptions	Program			Developer Fees		Incremental Taxes		Financing Capacity
		Residential	Office	Retail	Value	Rate	Value	Rate	
Scenario 1a	Market Supportable Development TIF Financing	800	30,000	40,000	-	-	\$658,774	\$3.9697	\$8,569,293
Scenario 1b	Market Supportable Development 2% Developer Fee No Tax Increment Financing	800	30,000	40,000	\$3,319,013	2%	-	\$3.9697	\$3,319,013
Scenario 1c	Market Supportable Development 2% Developer Fee TIF Financing	800	30,000	40,000	\$3,319,013	2%	\$658,774	\$3.9697	\$11,745,381
Scenario 2a	Irrespective of Market Supportable Development Irrespective of Market Supportable Development	1,867	70,017	93,357	-	-	\$1,537,523	\$3.9697	\$20,000,000
Scenario 2b	2% Developer Fee Maintain Tax Increment Payment	2,879	107,970	143,960	\$11,945,092	2%	\$658,774	\$3.9697	\$20,000,000
Scenario 2c	Irrespective of Market Supportable Development Developer Fee 2% TIF Financing	1,362	51,084	68,112	\$5,651,604	2%	\$1,121,759	\$3.9697	\$20,000,000
Scenario 3	Market Supportable Development Developer Fee 7% TIF Financing	800	30,000	40,000	\$11,945,089	7%	\$658,774	\$3.9697	\$20,000,000
Scenario 4	High Rise - Market Supportable 20% Escalation in Cost/Rents Developer Fee 2% TIF Financing	800	30,000	40,000	\$3,982,815	2%	\$790,529	\$3.9697	\$19,793,396
Scenario 5	Extrapolated Market 18 years Developer Fee 2% TIF Financing	1,440	54,000	72,000	\$5,974,223	2%	\$1,185,794	\$3.9697	\$20,000,000

Assumes full absorption. Financing value considered based on lump sum developer fees.

4. Analysis

The financing capacity for infrastructure development is determined by the revenues associated with incremental tax revenues and developer contributions for the development. In this analysis, the assumption is made that the revenues are calculated at full absorption for the residential units, office, and retail space. Financing capacity is calculated assuming 20-year tax exempt bonds at a 4.5% interest rate with the debt service amortized over a 20-year period.

Scenarios Evaluated

Scenario 1: In scenario one, Vantage Point evaluated the financing capacity determined by the market based development program. Using the baseline market supportable projections (800 units, 30,000 square feet office,

40,000 square feet retail) the financing capacity ranges from \$3.3 million to \$11.7 million and is determined by adjusting TIF financing, Developer Contributions, and a combination of the two.

Scenario	Basic Assumptions	Program			Financing Capacity
		Residential	Office	Retail	
Scenario 1a	Market Supportable Development TIF Financing	800	30,000	40,000	\$8,569,293
Scenario 1b	Market Supportable Development 2% Developer Fee No Tax Increment Financing	800	30,000	40,000	\$3,319,013
Scenario 1c	Market Supportable Development 2% Developer Fee TIF Financing	800	30,000	40,000	\$11,745,381

Scenario 2: Scenario two takes the baseline market supportable development and adjusts the program to determine the development program that will enable up to \$20 million in financing capacity considering the impact of TIF financing and developer contributions. The development program ranges from 1,362 residential units, 51,000 square feet of office, and 68,000 square feet of retail to 2,879 residential units, 107,000 square feet of office, and 143,000 square feet of retail.

Scenario	Basic Assumptions	Program			Financing Capacity
		Residential	Office	Retail	
Scenario 2a	Irrespective of Market Supportable Development	1,867	70,017	93,357	\$20,000,000
Scenario 2b	Irrespective of Market Supportable Development 2% Developer Fee Maintain Tax Increment Payment	2,879	107,970	143,960	\$20,000,000
Scenario 2c	Irrespective of Market Supportable Development Developer Fee 2% TIF Financing	1,362	51,084	68,112	\$20,000,000

Scenario 3: Scenario three evaluates the ability to meet the \$20 million threshold in financing capacity using developer contributions. The contributions for development would have to be 7%, and is considerably higher than would likely be reasonable for a developer.

Scenario	Basic Assumptions	Program			Financing Capacity
		Residential	Office	Retail	
Scenario 3	Market Supportable Development Developer Fee 7% TIF Financing	800	30,000	40,000	\$20,000,000

Scenario 4: Scenario four considers the potential implications of high rise development and the effective increase in incremental tax collections and developer contributions associated with a 20% premium on rental incomes. The development program remains consistent with the market supportable projections, though the high rise option (20% premium) is not likely supportable by current market conditions. This scenario reaches the threshold of \$20 million in financing capacity.

Scenario	Basic Assumptions	Program			Financing Capacity
		Residential	Office	Retail	
Scenario 4	High Rise - Market Supportable 20% Escalation in Cost/Rents Developer Fee 2% TIF Financing	800	30,000	40,000	\$19,793,396

Scenario 5: Scenario five takes the baseline market supportable development program and extrapolates the program beyond ten years. Using bond financing, as above, and continuing the development out through year 18 (1,440 units at 80 units per year), total financing capacity is \$20 million.

Scenario	Basic Assumptions	Program			Financing Capacity
		Residential	Office	Retail	
Scenario 5	Extrapolated Market 18 years Developer Fee 2% TIF Financing	1,440	54,000	72,000	\$20,000,000

Note: the tables above refer to developer contribution as developer fees.