

ANALYSIS OF ECHO EAST FEASIBILITY STUDY

This memo provides a brief background and analysis of the Development Feasibility Study completed in 2016 for the Echo East development proposed in San Antonio's East Side.

Background

Foremost Development Company, based in Birmingham, Michigan is proposing Echo East, a mixed-use development located adjacent to the George Gervin Youth Center in East San Antonio. A Development Feasibility Analysis for the Echo East project was completed in April 2016 by Meyers Research, a California-based firm. Meyers Research is a 20-year-old consulting firm headquartered in Beverly Hills, California, and runs offices across the United States. The Project Director for the Echo East study is located in their Dallas, Texas office.

Meyers Research provides advisory services on community development, resort and international development, litigation support, portfolio analysis, multifamily/urban/mixed-use development, commercial analysis, and capital investments. Meyers anonymizes their case studies (does not name projects or developers), so staff cannot determine if their studies have proven accurate when developments actually occur.

The study considered the 20-acre tract in East San Antonio, located near E. Commerce and Spriggsdale Blvd., three miles east of the Central Business District. The study projected delivery of a mixed-use residential/retail project by 2018, with residential rental units stabilized by 2020. The study indicates that retail of approximately 25,000 square feet would provide the highest internal rate of return (IRR) at this property, and that multifamily units would offer the second-highest IRR. The study also indicates that there is low demand for office and hospitality space in this submarket.

The residential scenario recommended by the study includes a total of 490 apartment units (280 in a wrap-around design and 210 in a garden design), showing the highest margin after development, lease-up and sale are complete.

Analysis

An initial review of the study seems to suggest a number of assumptions that may not be reliable, either because the comparable properties considered are not actually comparable or because significant time has elapsed since the study was completed, rendering the assumptions outdated. A summary of these findings are as follows:

- The study may overestimate the rents currently being charged in this submarket when compared to similar submarkets in other cities (such as Austin). Therefore, the study may be overestimating the market rents achievable for this proposed development.
- The "Critical Mass" portion of the study assumes that East San Antonio has an excess inventory of single-family homes in this submarket but does not account for this oversupply in their calculated shortfall of multifamily units. It is possible, then, that the study over-counts the gap in housing units for the area.

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- The consideration of nearby job density relies on employment numbers that include Fort Sam Houston; however, it is unclear whether the study assumes employees at Fort Sam would be a target market of this proposed development.
- The report predicts that retail rent growth will increase at an average 2.6% through 2021. However, the report compares retail leasing activity to that of properties located downtown and along lower Broadway (including the Pearl), and justifies that those market areas are more relevant to the Echo East project than the South San Antonio submarket, which the subject property borders.
- The report anticipated the addition of more than 1,500 rental units to the Central San Antonio submarket in 2016, an 11.6% increase in total supply, as well as a rent growth factor of 3.5% per year. These projections should be verified based on what actually occurred in 2016.
- A flaw of the study may be found in the nearby properties considered to be comparable to this site. Among the list are the various multifamily properties within and near the Pearl development, including Can Plant, Mosaic on Broadway, and Rivera, which had monthly effective per-square-foot rents ranging from \$1.70 to over \$2.00 in 2016. This is in contrast to properties located within the Promise Zone, where the project site is located, whose effective rents ranged from \$0.70 to \$0.82 PSF in 2016. The subject property is predicted to garner rents ranging from \$1.20-1.36 PSF for the garden-style units to \$1.46-1.65 PSF for the wrap-style (urban format) units, but it is unclear how these numbers were determined.
- At first glance, the vacancy calculation for the retail component of the project seems low at 5%. It is unclear whether this is realistic or not. Also, given the number of total residential units in the project (490 units), a 6% vacancy factor may also be slightly low, especially considering the projection in this study that residential vacancies in the Central San Antonio submarket are expected to increase. Given these possibilities, the return on cost could be overestimated.
- Construction costs for the residential units also appear low, at \$107.29 per square foot for the garden-style units and \$135.00 PSF for the wrap-style units. These calculations may need to be reconsidered given today's market conditions.
- The report also fails to account for the now-apparent fact that leasing of the property will not occur in 2018, but would likely occur later as general market conditions are predicted to decline somewhat.

The study does not include any relevant information about planned amenities, parking, the inclusion of affordable (restricted) housing, or the property's relationship with the Youth Center. Therefore, it is not possible to comment on these items at this time.