

SOUTH JORDAN CITY
CITY COUNCIL MEETING

March 15, 2016

Present: Mayor David Alvord, Council Member Patrick Harris, Council Member Brad Marlor, Council Member Chris Rogers, Council Member Don Shelton, Council Member Tamara Zander, CM Gary Whatcott, Fire Chief Andrew Burton, Administrative Services Director Dustin Lewis, Police Chief Jeff Carr, Development Services Director Brad Klavano, City Attorney Ryan Loose, City Commerce Director Brian Preece, Finance Director Sunil Naidu, IT Director Jon Day, Associate Director of Public Works Colby Hill, City Council Secretary MaryAnn Dean

Others: See Attachment A

REGULAR MEETING – 6:00 PM

A. Welcome and Roll Call – *Mayor David Alvord*

Mayor Alvord welcomed everyone present. All members of the City Council were present, as listed.

B. Invocation – *By Council Member Chris Rogers*

Council Member Rogers offered the invocation.

C. Pledge of Allegiance

Alex Davis, Scout Troop 1220, led the audience in the Pledge of Allegiance.

Mayor Alvord recognized the scouts present.

D. Minute Approval

1. February 23, 2016 Budget Meeting
2. February 23, 2016 Combined CC & PC Study Meeting
3. February 29, 2016 Council Study Meeting
4. March 1, 2016 City Council Meeting

Corrections to the minutes were noted.

Council Member Shelton made a motion to approve the February 23, 2016 Budget Meeting minutes, the February 23, 2016 Combined CC & PC Study Meeting minutes, the February 29, 2016 Council Study Meeting minutes, and the March 1, 2016 City Council

Meeting minutes, as amended. Council Member Rogers seconded the motion. The vote was unanimous in favor.

E. Public Comment:

None.

F. Consent Items:

1. Resolution R2016-22, purchasing policy exception to contract with Hansen Allen & Luce for Culinary Water Master Plan Update. *(By Director, Brad Klavano)*
2. Resolution R2016-23, purchasing policy exception to contract with WCED Engineers to evaluate TRAX Alignment Proposals. *(By Director, Brad Klavano)*

Council Member Rogers made a motion to approve consent items F.1 and F.2. Council Member Shelton seconded the motion. The vote was unanimous in favor.

- G. Action Item: Nielsen's Custard Sign Appeal AP2016.02**, appeal from City Code 16.36.100.F Wall Signs, specifically allowing for exposed neon tubes to be mounted onto the building as part of the brand signage at 3779 W. South Jordan Parkway. Ryan Peterson, Peterson Development (Applicant). *(By City Planner, Greg Schindler)*

It was noted that the Nielsen family representatives were not present at this time.

Council Member Marlbor made a motion to move item G. to be discussed after item H. Council Member Rogers seconded the motion. The vote was unanimous in favor.

- H. Public Hearing Item: Ordinance 2016-09**, Zone Text Amendment to Chapter 17.16.010 of the South Jordan City Municipal Code regarding the nomination and appointment of Planning Commissioners. *(By City Attorney, Ryan Loose)*

Mayor Alvord opened the public hearing. There were no comments. He closed the public hearing.

Council Member Rogers made a motion to approve Ordinance 2016-09. Council Member Shelton seconded the motion. Roll call vote. The vote was unanimous in favor.

Council Member Rogers made a motion to discuss item I, and then item G. Council Member Harris seconded the motion. The vote was unanimous in favor.

- I. Staff Item:** Presentation on Progress of the Redwood Road Corridor Plan. *(By Long Range Planner, Jake Warner)*

Long Range Planner Jake Warner reviewed the background information on this item. They are done with the research and analysis portion of the project. An open house was held. He reviewed the first part of a prepared presentation (Attachment B).

Benj Becker, Zions Public Finance, reviewed the market analysis in the prepared presentation (Attachment B). He noted that Redwood Road has a high level of risk compared to other areas, such as the SOJO Station.

Council Member Rogers said the study noted that there is a concern that auto body, tire shops, and car establishments can kill the desirability of the area. He asked what do they do about that and how do they adjust for that? Mr. Becker concurred that those businesses lend to bringing in other auto body and auto repair businesses. Those types of businesses can be stifling to development and they do not help encourage retail and residential development.

Mr. Becker indicated that most developers love to do residential development because the financing is easier to obtain, the risk is low, and the return is greater. Office and retail have appeal as well. He said if they are putting in a residential building next to a tire dealership, they will probably look at the lower end of the residential market.

It was noted that there is a lot of demand for smaller office spaces (up to 5000 sq. ft.) along Redwood Road. Larger footprint commercial would be closer to I-15.

The City Council discussed a need for subsidizing residential along Redwood Road. Mr. Becker said anything above a 4 story building is not financially feasible to support covered parking. Council Member Shelton asked why would there be a need for incentive with a lower capitalization rate? Mr. Becker said one example is if they increase their cost without increasing their value, such as covered parking.

City Commerce Director Brian Preece said generally, capitalization rates are used to compare one investment to another. It is a tool used in the industry to compare investments and determine the risk they are willing to take. It is also a measure of how fast the investor will get their money back.

Susie Petheram, CSRA, reviewed the findings regarding land use and transportation in the prepared presentation (Attachment B). She noted that the study area includes a quarter mile on either side of Redwood Road. She reviewed the land uses and traffic circulation. She said they understand that people desire the continuation of the bike lanes. They have done an open house and they have worked with a technical advisory committee. They will be bringing back 3 scenarios to the public at another public open house to receive more feedback.

Council Member Harris said he likes the defined bike path in the Indianapolis Cultural Trail. He also likes the street scape. Will the bike path and street scape on Redwood Road cause them to need to widen the road further?

Ms. Petheram said their first strategy is to work within the existing right of way. There is space to do bike lanes and street scape without expanding the right of way. If UDOT says they need 3 lanes, and if the enhancements are still needed, then they could consider widening the right of way. UDOT is open to working with them on bike paths. She noted that some people don't feel safe using a bike on Redwood Road because of the amount of traffic, and the high rate of speed.

Council Member Marlor asked don't they see Redwood Road being a 3 lane road soon? It's already a 3 lane road to 9000 South. Ms. Petheram said it could be, but it doesn't have to be.

CM Whatcott said if they had more transit options on Redwood Road, it may deter the need for more traffic lanes. Ms. Petheram said that is something that UTA is evaluating as part of their regional transportation plan.

Planner Warner said they have asked UDOT for a firm commitment trying to determine if 3 lanes are necessary. Council Member Marlor said there is already backing up on Redwood Road. He can't imagine that UDOT won't realistically build it out to 3 lanes.

Council Member Harris asked if it was possible to have 3 lanes and a bike lane? Ms. Petheram said to go to 3 lanes, they would restripe and get rid of the shoulder and bike lanes. If the city wants the bike lanes, they will have to consider a wider right of way.

CM Whatcott asked about the turn out at the public meeting? He also asked who is on the advisory committee. Ms. Petheram said they had 15-20 people attend the open house in February. They have also received comments online. She said on the advisory committee is key staff members, a representative from Wasatch Front Regional Council, a representative from UTA, a representative from UDOT, and a representative from Salt Lake County.

Council Member Shelton asked if they will be making a summary of the comments available? Ms. Petheram said yes. It will be part of the final report. They will show how the comments made relate to the scenarios that are being presented.

G. Action Item: Nielsen's Custard Sign Appeal AP2016.02, appeal from City Code 16.36.100.F Wall Signs, specifically allowing for exposed neon tubes to be mounted onto the building as part of the brand signage at 3779 W. South Jordan Parkway. Ryan Peterson, Peterson Development (Applicant). *(By City Planner, Greg Schindler)*

Doug Nielsen and Steve Nielsen, Nielsen's custard, said they have felt a warm welcome from the community. They showed the neon lighting that is proposed. The design of their building holds true to pre-war diners from the 1920s and 1930s. It was noted that this location will have a full diner. It was also noted that they don't have a backup plan, if this is not approved. Doug said they thought they had approval from the departments after the first conceptual meeting.

Council Member Harris said his understanding is that the neon around the building and cone has been approved. The issue is the wording on the sign. He feels there is quite a bit of neon already.

It was noted that the sign application is separate from the building permit. Staff recently received the sign application and had to deny it because it does not meet code. Council Member Shelton said in this case, it puts them in an awkward spot.

Council Member Marlor said the part that feels awkward to him is that the neon is allowed on the building, but not the sign.

Council Member Shelton noted that Astro Burger has neon on the building and they just put clear plexiglas over the neon sign. Planner Schindler said that was allowed.

Ryan Peterson, Peterson development, said because it is on the building anyway, using another type of lettering would look inconsistent and out of place. He feels this building makes an architectural statement.

Mr. Nielsen noted that they have had cities that would not allow the neon in the past, but now it is being allowed more.

Council Member Harris said many communities prohibit neon signs. Has anyone researched why it is prohibited? Planner Schindler said it fell out of style in the 70s, and there was some issue with maintenance of the lights. He is not sure why it was prohibited. He noted that neon is permitted in Daybreak.

Council Member Harris said some of the issues are that neighboring buildings don't like it, it is a distraction for drivers, and they don't want the city to look like Las Vegas. There are also some undesirable businesses that traditionally use that type of lighting. There is a lot of negativity that follows it. He is not concerned with this use, but is concerned with setting a precedence that would allow neon to come back.

Council Member Shelton made a motion to approve Nielsen's Custard Sign Appeal AP2016.02. Council Member Rogers seconded the motion.

Council Member Shelton said this building is located next to an Auto Zone, that meets code, and that sign is not as appealing as this sign will be. Council Member Harris said he is okay with this sign, but is concerned about the precedence moving forward.

Roll call vote. The vote was 4-1 in favor, with Council Member Harris opposed.

J. Reports and Comments: *(Mayor, City Council, City Manager, and City Attorney)*

Council Member Zander said the mosquito abatement district is on top of the Zika virus. There are no reports of it in Utah. There are no alarming sightings or conditions upcoming.

Council Member Shelton reported that at the last Association of Municipal's Council meeting, they discussed Wasatch Front Regional Council's transportation plan. They are the only state in the nation with a unified transportation plan. He reviewed upcoming projects including the

extension of the Mountain View Corridor to 201 by 2021. The 114th South Bangerter Highway intersection will begin next summer. 9000 South is planned to go under because of some issues with Old Bingham Highway and the train tracks. UDOT is not willing to commit that 11400 South will go under. He said he was told that it is up to the contractor because it's a design build. He said they may need to lobby to get Bangerter to go under 11400 South.

City Attorney Loose said they are looking at past agreements with the developer and UDOT. Several versions of the agreement say that Bangerter Highway will go under; they are looking for the final version now. Development Services Director Brad Klavano said it needs to be in the language in the RFP that it goes under, or that could be a problem.

Council Member Shelton discussed ZAP funding and the process of where projects are approved. The committee that decides those projects are mainly elected officials. There are 5 mayors on that committee, and each of their cities has a major project. The ZAP bonding is for \$50 million, and there is currently \$180 million worth of projects, one of which is Welby Park. He noted the inequality of representation from the east side versus the west side. The southwest part of the valley only has Mayor Freeman as a representative. He said one equation in determining the projects is surrounding population that would use a project. He said there is no surrounding population west of the Welby Park. He said they need to start lobbying for that park. He said one positive is that Welby Park is a county/city project. It is also positive that both the city and Kennecott are bringing money to the project.

CM Whatcott said the County spreads the pie thin and tends to phase projects. As a result, the east side still has a lot of projects in Phase 1. He said they need to lobby to get on that committee. He said communities that have Mayors on that committee have the County provide park or recreation services.

The City Council discussed sending a letter from the Council as a whole to the committee as well as calling the members of the committee individually.

Council Member Rogers said ZAP is set up through the legislature. He said there could be legislative ways to get a seat at the table. City Attorney Loose said before they go that route, they should try to get an elected official on the committee first. Staff will research how that committee is formed.

CM Whatcott said South Jordan has never been a recipient of tier 1 ZAP funding.

Council Member Zander noted that Kennecott land has 2 sessions scheduled this week. If they have 3 members of the City Council attend, they will need to notice that. Staff indicated that they will notice the meetings to be safe.

Fire Chief Burton noted the Fire Ops 101 event scheduled for May 14th from 7 am to 3 pm at the West Valley Fire Station #73. He encouraged the City Council to attend.

Council Member Marlor made a motion to take a break. Council Member Rogers seconded the motion. The vote was unanimous in favor.

City Attorney Loose discussed a gate between King Benjamin Court and Holland Park. He reviewed the history on the gate. The residents of King Benjamin petitioned for the gate. The city fronted the money, and the residents agreed to pay for it and the ongoing maintenance. Holland Park agreed to it when the developer paid their portion. They are still required to pay ongoing maintenance, which was stated in their documents when they closed on their homes. The city started sending out the bills. Some have paid, many have not. Some said they are never going to pay. How should staff proceed?

Council Member Harris said part of the problem is that so much time has gone on and people either don't remember, or they are new homeowners. The people in Holland Park said they didn't know about the requirement to pay ongoing maintenance of the fence. He said they will never be able to collect the money.

City Attorney Loose said after 5 years, they can collect through collection methods. Council Member Harris said he has heard from just a handful of residents, but they are organized.

CM Whatcott said they have fielded about 5-6 calls in the finance department. They collected from about 15 individuals. The ones that they are hearing from do not want a gate.

Council Member Harris said they are upset that so much time has gone by and now they are being hit with it all at once. City Attorney Loose said they have been enjoying the gate. It was noted that the cost that the city has paid towards the gate, plus maintenance to date, is about \$14,000.

Council Member Marlor said the obligation was in the title report. It would also have been included in any documents, if a home in King Benjamin has been sold since the original agreement.

It was noted that King Benjamin's bill is \$166 a year for 3 years, and then ongoing maintenance after that will be \$43.80. The bill for Holland Park residents is \$43.80.

CM Whatcott said originally, the money was supposed to be collected through the property tax, but the County didn't add it. Staff pushed back and said they did the assessment area pursuant to statute. The County still refused to bill. The previous City Council determined to bill the residents through the city.

Council Member Harris said he doesn't want to force all of the residents in these subdivisions to pay through collections. Council Member Rogers asked if the residents would pay what has currently been charged and then have the gate removed? Council Member Harris said no.

Council Member Shelton said it is in their title documents. The residents should have to pay for it.

It was noted that the maintenance of the fence will be ongoing. Staff did not favor the installation of the fence originally. The City Council has the right to remove it. The City Council discussed sending out a letter to each landowner asking for input on their desire to keep the fence or not and the consequences of each decision.

CM Whatcott said staff will spend \$14,000 in staff time, etc. dealing with the gate. He said he is okay to end it and cut their losses. Mayor Alvord said if they vote to keep the fence, they need to pay for it. The city could offer to rip it out for free.

Council Member Rogers asked that staff parcel out the residents results so they understand the results from both King Benjamin Court and Holland Park.

Council Member Harris made a motion to go into an executive session to discuss the purchase, exchange, or lease of real property and to discuss pending or reasonably imminent litigation. Council Member Rogers seconded the motion. The vote was unanimous in favor.

CLOSED MEETING

Council Member Shelton made a motion to come out of executive session. Council Member Marlor seconded the motion. The vote was unanimous in favor.

ADJOURNMENT

Council Member Rogers made a motion to adjourn. Council Member Zander seconded the motion. The vote was unanimous in favor.

The March 15, 2016 City Council meeting adjourned at 9:40 p.m.

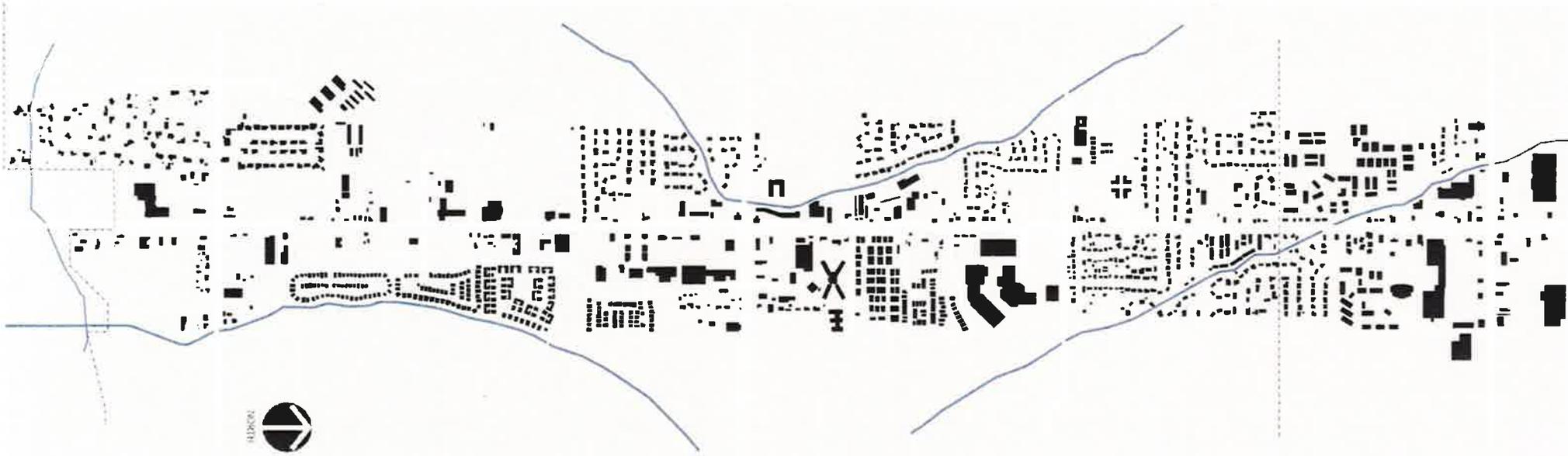
This is a true and correct copy of the March 15, 2016 Council Study Meeting minutes, which were approved on April 5, 2016.

Rana M. West
South Jordan City Recorder

South Jordan Redwood Road Corridor Plan

Project Overview
March 15, 2016





- Land Use
- Transportation
- Urban Design & Streetscape
- Activity Nodes
- Connectivity

Nov - Feb

Discovery &
Analysis

Feb - June

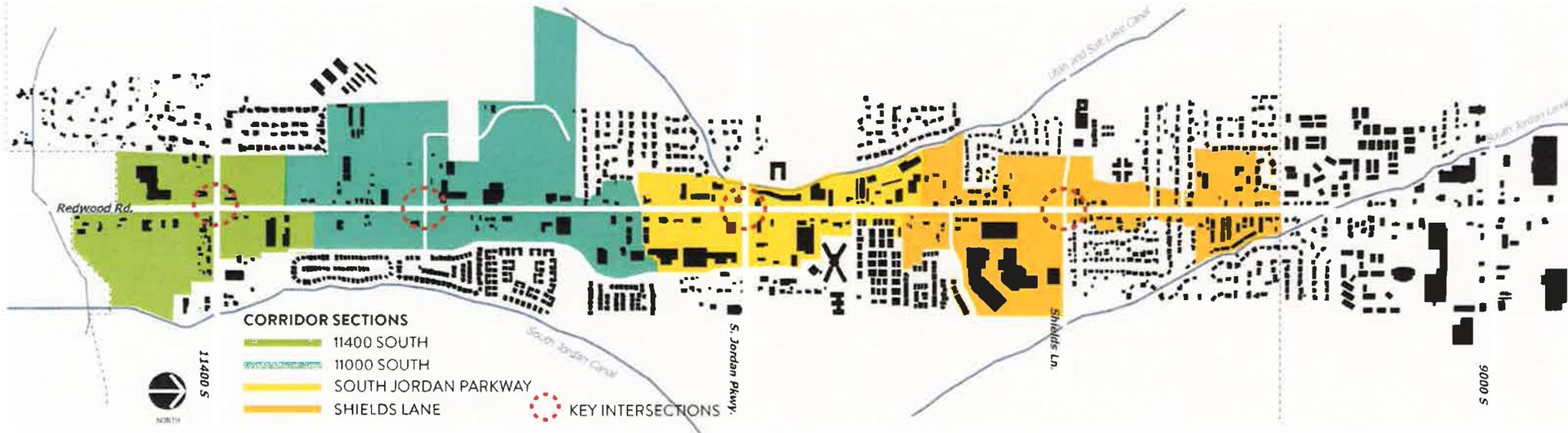
Idea
Generation

April - July

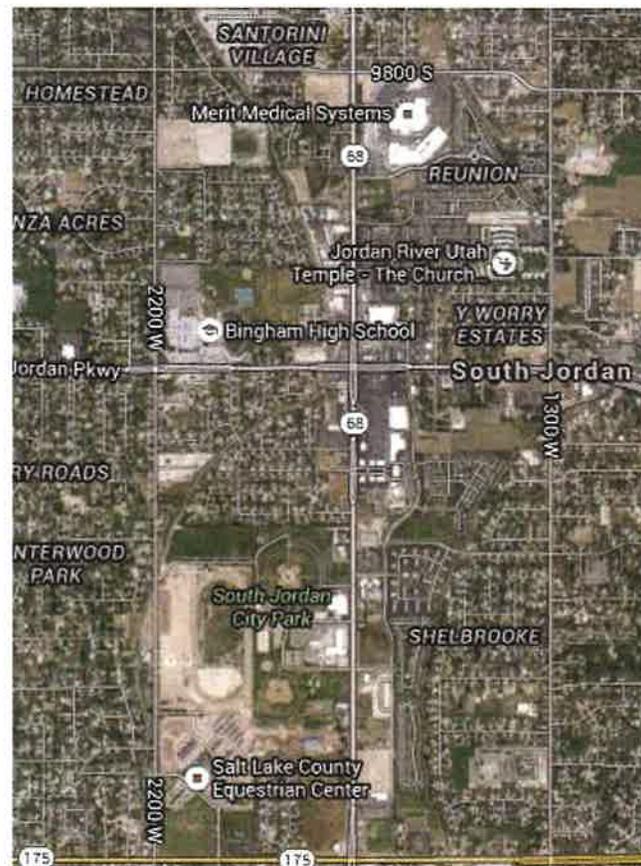
Implementation &
Planning Tools



CORRIDOR SECTIONS + NODES



Market Analysis Highlights Redwood Road, South Jordan



Focused Nodes of Development

- Redwood Road and Shields Lane – Merit Medical, likely no construction for five years
- Redwood Road and Haven View Road – Potential for extending the downtown walkable area
- Redwood Road and 10610 South – Supportive of an extended downtown core
- Redwood Road and 11010 South – Potential for restaurant clustering and/or mixed-use on east side. Somewhat less desirable construction on west side (for supporting retail development)

Potential Use Types

- Office – absorption of 10,000-20,000 square feet over the next 12-18 months. Average annual absorption over next ten years is estimated at near 10,000 to 15,000 square feet. Most likely two to three-story developments, with parking required at a minimum of 4.0 spaces per thousand rentable square feet
- Retail – estimated absorption of 10,000 square feet in next 12 months, with average annual absorption for the next ten years anticipated closer to 5,000 to 10,000 square feet, considering existing supply and vacancies. Single-story construction, with parking likely to be at 5.0 per thousand for most uses
- Residential development is supportable, with building heights up to four stories. Concern from some developers about an oversaturated market; however, demographics suggest near-term, continued healthy demand for housing

Financial Feasibility and Value Comparisons

- Office construction along Redwood Road estimated at near \$180-\$185 per square foot, with estimated market values (prior to stabilization) at similar levels. Stabilized indications closer to \$225 per square foot. Office use appears to be financially feasible, although some incentives may be required to attract development from other communities
- Retail construction is estimated at roughly \$215 to \$220 per square foot, with estimated values noted from \$255 to \$265 per square foot (small-scale, new retail product)
- Residential construction appears financially feasible, although some incentives may be necessary. Limited financial support for building heights above four stories, particularly if parking garages are necessary

Valuations and Criteria for Developers

Use Types	Valuation – Direct Cap	Valuation - DCF	Cost Approach
Office	\$185 per sq.ft.	\$185 per sq.ft.	\$180-\$185 per sq.ft.
Retail	\$225 per sq.ft.	\$215 per sq.ft.	\$215 per sq.ft.
Residential – Apts.	\$120-\$135 per sq.ft.	NA	\$130-\$135 per sq.ft.

- Capitalization rates
 - Office – 6.0% - 8.5%
 - Retail – 6.0% - 8.5%
 - Apartments – 5.0% - 6.5%

What Market Participants Say About the Corridor

- Some hesitancy exists from residential firms to develop based on prior outcomes of plans
- Office space should be planned for smaller spaces, while big-name firms with large area needs will go closer to I-15
- Additional eateries could be added, and would benefit from being clustered together
- There is the potential to create a walkable connection with City Hall by utilizing undeveloped area on the west side of Redwood Road
- Development would be most supportable closest to the road, with rear or side-accessed parking areas
- There exists the potential to add development in areas with excess parking and low floor-to-area ratios

South Jordan Redwood Road Corridor Plan

Land Uses



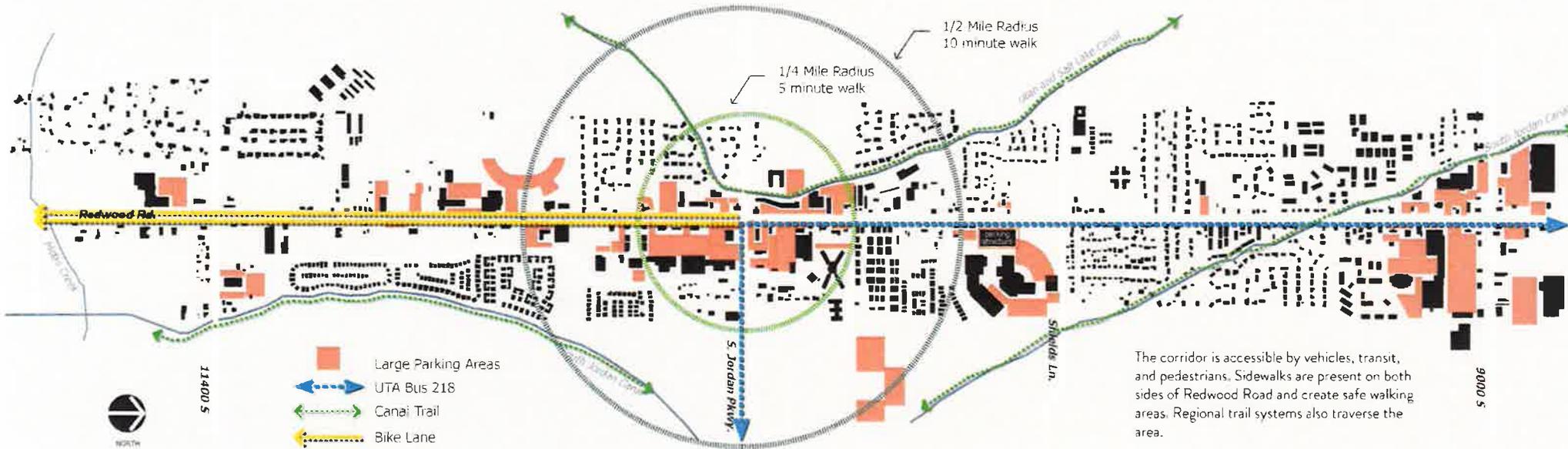
Findings: The primary land use of parcels along the corridor is commercial, with significant pockets of exempt and developable land. The ability to aggregate vacant parcels will be critical to the potential for development along the corridor.



9000 S

South Jordan Redwood Road Corridor Plan

Circulation



The corridor is accessible by vehicles, transit, and pedestrians. Sidewalks are present on both sides of Redwood Road and create safe walking areas. Regional trail systems also traverse the area.



UTA BUS 218



TYPICAL SIDEWALK CONDITIONS

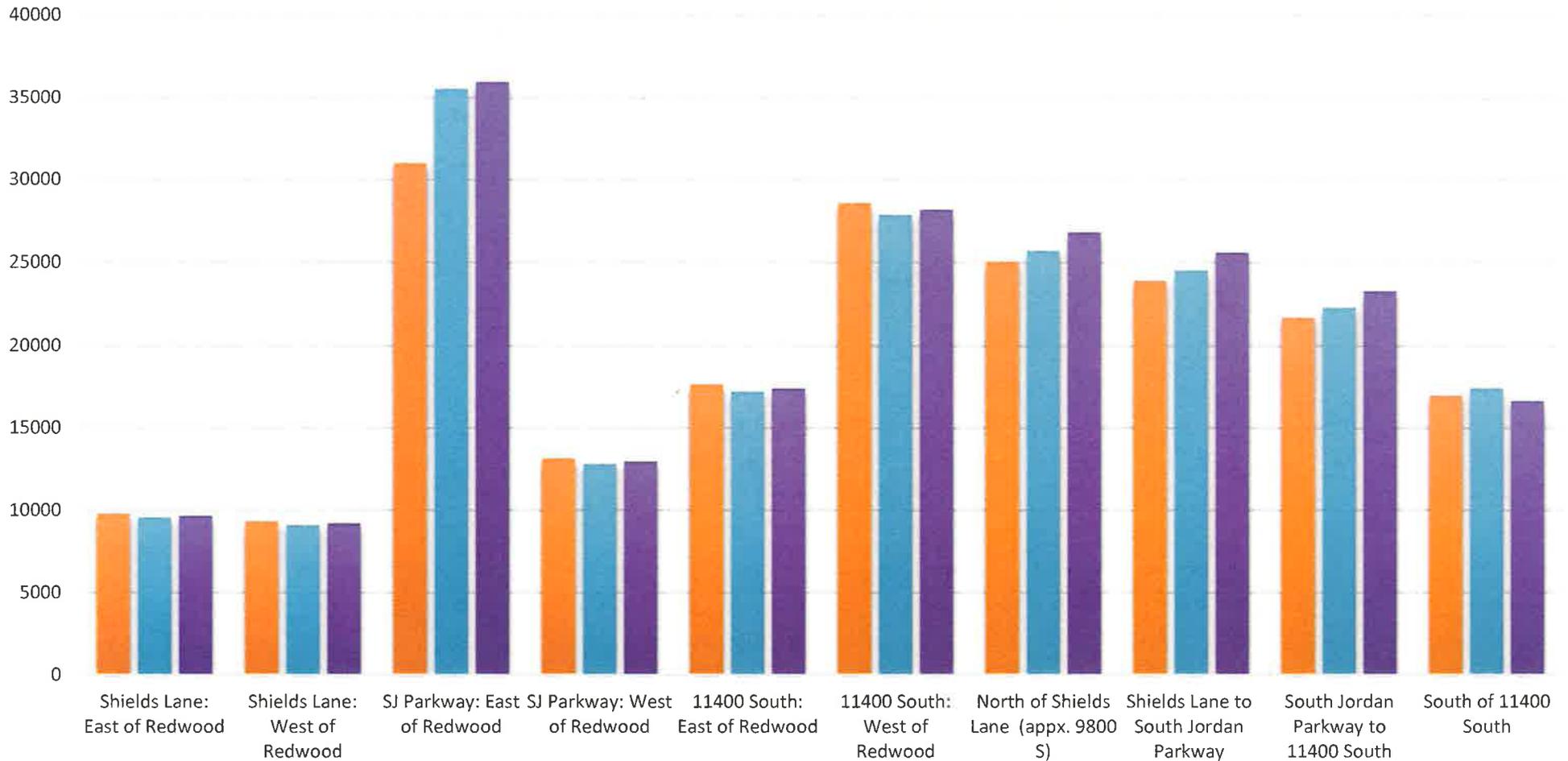


CROSSWALK @ 10400 SOUTH



TYPICAL SIDEWALK CONDITIONS

AVERAGE DAILY TRAFFIC: Redwood Road and Intersecting Arterials



South Jordan Redwood Road Corridor Plan

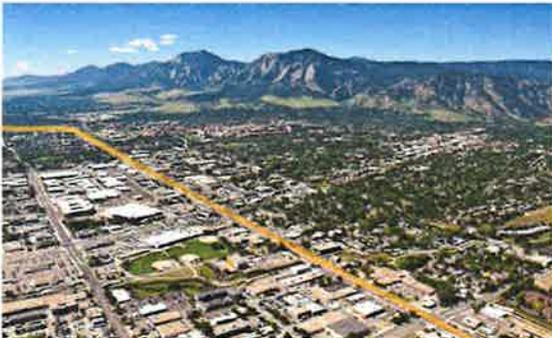
Assets & Opportunities



South Jordan Redwood Road Corridor Plan

Precedent Research

28th Street



This aerial view view of Boulder with 28th Street highlighted in orange provides a regional perspective of the importance of the street as a gateway and major thoroughfare. Image credit: inqnet.com



Raised medians divide lanes of travel and are planted with water-wise native and adaptive planting.



Public art enhances the urban design theme.



Consistent application of urban design elements including lighting, landscaping, paving, signage and other equipment creates an identifiable design theme and enhances views to surrounding mountain scenery.

Location: Boulder, CO

Speed Limit: 60 / 35

Indianapolis Cultural Trail



Consistent application of urban design elements including lighting, landscaping, paving, signage and other equipment creates an identifiable design theme and enhances the identity of the Cultural Trail.



This aerial view of one section of the Indianapolis Cultural Trail shows its varied context as well as its well-identifiable urban design theme. Image credit: globaltrails.com



Public art reinforces the urban design theme and offers a historic and cultural perspective of the corridor.



High visibility crosswalks create safe passage for pedestrians and enhance the identity of the Cultural Trail.

Location: Indianapolis, IN

Speed Limit: 40/30

Ocean Park Boulevard



The birds-eye view of the boulevard shows how the corridor acts as a multi-modal community gateway for residents and visitors alike who pass through here to visit the beaches to recreate.



The road which was previously unimproved has now transformed into a gateway corridor accommodating pedestrians and cyclists and creating a community identity and sense of arrival.



Consistent application of urban design elements including lighting, landscaping, paving and other equipment creates an identifiable urban design theme.



Sidewalk plantings are designed to improve storm water runoff and to create a desirable pedestrian experience.

Location: Santa Monica, CA

Speed Limit: 35



RE: Capitalization Rates for Development on Redwood Road, South Jordan

In reference to several questions from the South Jordan City Council regarding capitalization rates, the following memo is intended to clarify previously-presented material. We have first included a summary of the market analysis findings for South Jordan, followed by more detailed explanation of how developers evaluate the relative attractiveness of projects.

1. Summary of Market Analysis Findings for South Jordan

Category	Office	Retail	Residential
Absorption – next 12 mths	15,000 sf	10,000 sf	
Annual absorption	10,000 – 15,000 sf	5,000 – 10,000 sf	
Height (in stories)	2-3	1	4
Construction Cost	\$180-\$185 sf	\$215 sf	\$130-\$135
Market Value	\$185 sf	\$215-225 sf	\$120-\$135
CAP Rates	6.0%-8.5%	6.0%-8.5%	5.0%-6.5%

The table above shows that office construction, at 2-3 stories is currently feasible (as costs are near equivalent to estimated market value, and costs already include a development profit). If more vertical office construction is desired, incentives would be necessary along Redwood Road, as current costs exceed achievable values for building heights in excess of three stories. For retail product, the table shows that single-story construction is presently financially feasible, with estimated market values similar to or exceeding anticipated costs and profit.

Residential construction is noted to be potentially feasible at four stories or less, although estimated costs are at the upper end of projected values for Redwood Road. Consequently, residential developers may have to choose lower returns and reduced profits, or search for incentives. Construction above four stories for residential use does not appear to be financially feasible at present along Redwood Road.

The following section explains the “math” behind the above calculations and findings.

2. Explanation of Discounted Cash Flow Approach to Developer Valuation and CAP Rates

In estimating future market value, developers will consider discounted cash flow analyses and/or direct capitalization techniques. These valuation methodologies consider projected income and expenses for a property at a stabilized, operating level. Consideration is made for marketwide vacancy rates, with both techniques focusing on projected net operating income (NOI). The NOI is ultimately capitalized by an appropriate first-year rate of return to result in a value indication.

What Is a Capitalization Rate?

Capitalization rates represent the first year rate of return for a real estate investment. The formula for capitalization rates (also called overall rates, or OAR) is noted below:

$$\begin{array}{l} \text{Net Operating Income (NOI)} \\ \text{For Example:} \\ \$150,000 \text{ (NOI)} \end{array} \div \begin{array}{l} \text{Value} \\ \\ \$2,000,000 \text{ (Value)} \end{array} = \begin{array}{l} \text{Capitalization Rate} \\ \\ 7.5\% \end{array}$$

If value increases, but net income remains the same, the result is a lower capitalization rate.

For example:

$$\$150,000 \text{ (NOI)} \div \$2,500,000 \text{ (Value)} = 6.0\%$$

Conversely, if net income remains the same, but value declines, the capitalization rate reflected is higher.

For example:

$$\$150,000 \text{ (NOI)} \div \$1,500,000 \text{ (Value)} = 10.0\%$$

Finally, if net income increases, but value remains the same, then the rate also increases.

For example:

$$\$200,000 \text{ (NOI)} \div \$2,000,000 \text{ (Value)} = 10.0\%$$

How were CAP Rates used in the Redwood Road Study ?

CAP rates show the acceptable range of rates of return, from a developer's point of view, for a particular type of development. Further, CAP rates are used to help estimate value, which is then compared to a developer's cost of construction. If CAP rates are too low, or if the resulting project values are less than construction costs (using the acceptable range of CAP rates), the project simply won't happen. If the project is a high priority for the City, then, in some cases, the City may choose to offer some sort of public assistance to the developer in order to encourage the project to move forward.

We sometimes, but not always, find that the projects a City desires (those with good jobs, property tax revenues, sales tax revenues, etc.) are not the most desirable in terms of return on investment (ROI) to a developer. Understanding how a developer determines value can assist a City in understanding what development is most likely to take place under existing market conditions – and which ones will not proceed on their own given current market conditions. And, if the City really desires a project that is not currently feasible, this analysis helps us identify the needed levels of public assistance.

Where Do You Come Up With CAP Rates?

CAP rates are different for residential, office and retail development. They vary by location and change when market conditions change. How are capitalization rates found in the market? Comparable sales are the best indicator of market activity, and show what real transactions are resulting in by way of returns. Also considered are broker opinions, survey results (several commercial brokerages publish achievable capitalization rates), developer projections, and alternative forms of investments.

Tables below highlight capitalization rate ranges for various property types in the Salt Lake Valley.

Capitalization Rates - Office		
Source	Cap Rate Range	Average
Brokers	5.5%-7.5%	6.50%
Developers	6.0-8.5%	7.00%
Published Surveys	6.5%-8.0%	7.25%
Commerce Real Estate Solutions Survey (2015)		7.70%
Commerce Real Estate Solutions Survey (2014)		6.34%

Capitalization Rates - Retail		
Source	Cap Rate Range	Average
Brokers	6.0%-8.0%	7.25%
Developers	6.0%-8.5%	7.00%
Published Surveys	6.0%-7.75%	7.20%
Commerce Real Estate Solutions Survey (2015)		6.98%
Commerce Real Estate Solutions Survey (2014)		7.25%

Capitalization Rates - Apartments		
Source	Cap Rate Range	Average
Brokers	5.0%-6.0%	5.50%
Developers	5.25%-6.5%	5.75%
Published Surveys	5.0%-6.45%	5.75%
Commerce Real Estate Solutions Survey (2015)		5.58%
Commerce Real Estate Solutions Survey (2014)		6.28%

How Do You Calculate Value to a Developer?

In addition to researching CAP rates, we research existing market rents, vacancies, operating costs, etc. The purpose of this research is to estimate NOI. Once we know NOI and CAP rates, we can calculate the potential value of a project to a developer. For example, if properties are trading at rates near 7.5 percent, value can be estimated by dividing net income (NOI) by 7.5 percent. A property with \$60,000 in net income will have a value of \$800,000, with a 7.5 percent rate ($\$60,000 \div 7.5\% = \$800,000$). The valuation amount is then divided by the total square footage of the project to determine value per square foot and then compared to the construction cost per square foot. This comparison determines feasibility and the relative attractiveness of various projects for a developer.