Solving for Feasibility

by Ernest Bleinberger, Strategy 5

Inevitably, every project, plan, concept, and development vision, encounters a set of feasibility questions: How much will it cost? How will it be paid for? Is it sustainable? Is the return worth the investment? Feasibility analysis has many facets, but one thing is clear; it is not a binary, "yes or no" proposition, although many people consider it as such. Rather, approaching the issue by "solving for feasibility" reveals a very different process, and often, results in a different – and positive – outcome. The approach is valuable for developing a stand-alone project, as well as broader applications such as an entire downtown revitalization effort, or community master plan.

At its core, solving for feasibility means helping to determine either: 1) *what* may be feasible, and under what circumstances, or 2) how to *make* a desired project feasible. Both are based on economic methodologies crafted for the task. These methodologies boil down to a combination of cash flow analysis, conceptual project modeling, and adaptive funding and finance strategies. The components of the basic methodology further include a rigorous market analysis, projecting operating revenues and expenses, calculating supportable debt and equity, estimating capital costs, assimilating data, and synthesizing project characteristics. Outputs typically include projections of net operating income (or loss), cash flow, ability of the project to pay for its development costs, and forecasts of long-term economic sustainability.

It is important to state that solving for feasibility is *NOT* a process of manufacturing a pre-determined positive outcome.

As with any solid feasibility analysis, the process must begin with a rigorous and pragmatic market analysis, one that does not simply regurgitate data and information but provides the meaningful interpretation and application of understanding that is needed as a foundation for further progress along the project development decision-tree. All too often, market analyses are heavy on data but light on the actual analysis which is so important to this step.

A good market analysis includes both a "top down" approach that includes the use of data such as demographics; and a "bottom-up" element that is often more important in real-time applications to the feasibility question. Depending on the project type, the bottom-up approach should include a recognition of both "supply-pull" and "demand-push" economic principles. The supply-pull principle involves the ability of a project to draw demand, potentially from distant geographic areas, based on the nature of the project. The demand-push principle involves identified and quantified unsatisfied demand being fulfilled.

The Theme Park in the Swamp

The classic example of the supply-pull dynamic involves the question: What was the market for a giant theme park in the Florida swamp? No traditional market analysis would have seen the potential for Disney World, as did its creator Walt Disney. The nature of the project and subsequent successful development captures demand from around the globe. The classic example of the demand-push dynamic is a grocery store built to answer unsatisfied demand from an underserved market that may consist of a geographic area just several square miles in size. Either way, it is important to recognize that the *nature of supply heavily influences demand.*

Once the findings of the market analysis are in place, and they are determined to be both comprehensive and accurate, then the financial feasibility analysis may be taken to the next level.

Cash (Flow) is King

Financial feasibility analysis can be accomplished in different ways, but we favor use of a good 10-year cash flow pro forma as its foundation. The pro forma can serve several functions, including identification and incorporation of basic development and operating assumptions that help planners and proponents to understand how their project will perform in the previously dimensioned market. It should also generate outputs that establish levels of important economic and financial thresholds that are indicators of feasibility. Perhaps most importantly, the cash flow pro forma can serve as a tool for deeper understanding of not only how a project *may* perform, but how a project *must* perform, for the feasibility goal to be achieved.

For example, in a proposed hotel project, a market analysis may show that the achievable Average Daily Rate (ADR), and the average occupancy, results in a RevPAR (revenue per available room) that yields a marginal "go-decision" or a "no-go" threshold for a

continued next page

developer. Furthermore, when departmental and other expenses are balanced against gross revenues generated according to these variables, the project may show insufficient Net Operating Income (NOI) and cash flow to support conventional financing. Therein lies the challenge in solving for feasibility. By adjusting the inputs based on further investigation of the market and refinement of baseline assumptions, one can see how the project must perform and/or how the building program can be modified to balance the operational characteristics against costs, including those for land and construction.

Davis County Conference Center

One project example that illustrates a successful answer to both the *what* and the *how* questions is the Davis County Conference Center and Hilton Garden Inn, located in Layton, Utah. The County wanted a project of this general type to spur economic development in the community, located about 30 miles north of Salt Lake City. Two feasibility studies were commissioned in succession that both came back with a negative result. The first ignored the overall growth in the Salt Lake Valley, and based projections on a "convention center" and separately located mid-scale hotel. The second study ignored the demand source represented by nearby Hill Air Force Base and failed to account for the County-owned property resources that were available for the project.

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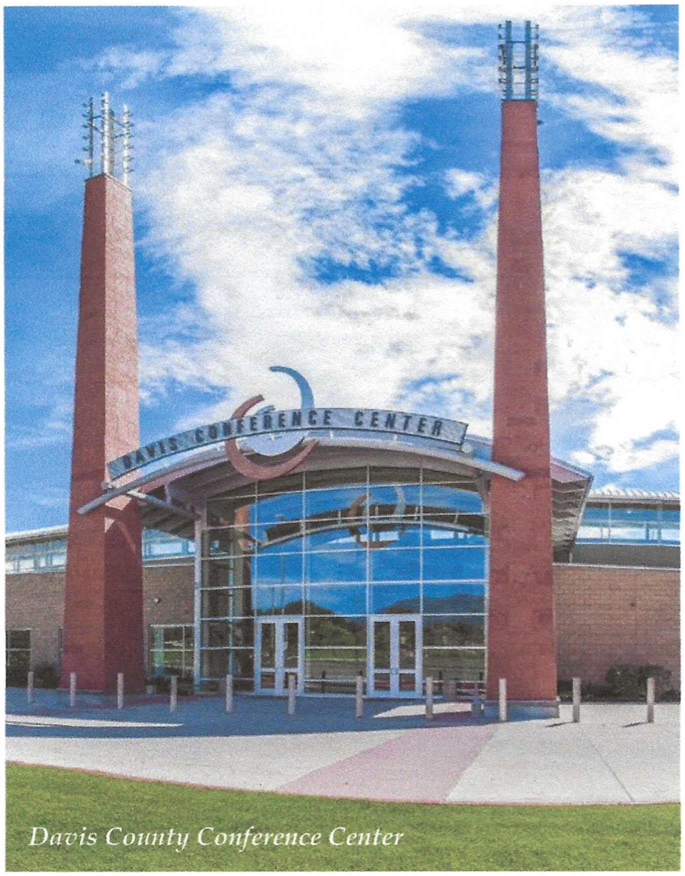

Davis County Conference Center

CASE STUDY: Florence, SC

Downtown Florence. Photo by Blue Edge Photography

Kress Corner. Photo by Florence Downtown Development Office

Downtown Florence at Dusk. Photo by True Light Photography

Downtown Florence, South Carolina, was experiencing a 70% vacancy rate in leased business space, an endemic problem with absentee building owners, a fractured residential neighborhood, decaying streetscape, and increasing competition from suburban commercial centers. The challenge was to induce both near- and long-term revitalization, and to ensure a sustainable future.

In this case, solving for feasibility included development of a downtown attraction in the form of a performing arts center complex. This was achieved through a joint effort between Francis Marion University, the Florence Little Theater, and the City of Florence. It enhanced downtown's ability to draw visitors, including restaurant patrons and others, thus improving its position in the marketplace. The physical problems with downtown were addressed through a detailed set of design guidelines, and a pragmatic implementation and funding strategy. The neighborhood problems were solved, in part, by a Master Plan that identified building opportunity sites on abandoned or vacant parcels, establishment of housing development incentives, and ultimately the re-knitting of this part of the downtown community.

Through application of the prescription for a feasible solution to the downtown challenges and sustained hard work by the Florence Downtown Development Corporation and the business community, the vacancy rate today is under 6%, retail stores and restaurants have flourished in an attractive, walkable, and pleasing environment, and cultural arts and entertainment have served to anchor the renaissance. The neighborhood has rebounded with a mix of multi-family, single-family, market-rate and affordable units, with connectivity to the downtown district improved. The revitalization of Florence took nearly a decade, beginning with initial feasibility work in 2005, key implementation steps completed by 2010, and numerous stakeholders marking progress that continues to the present.

The project recently won the Joseph P. Riley, Jr. Award for Economic Development from the Municipal Association of South Carolina.

The third feasibility study incorporated potentials associated with the omitted market forces, modeled a properly-sized, functionally integrated conference center and hotel facility that bolstered shoulder season demand for rooms, thus boosting achievable ADR, occupancy, and RevPar. This in turn gave the County the necessary confidence to provide funding for the conference center which remained publicly owned and induced the necessary private investment for a higher-quality hotel than previously envisioned. A land swap resulted in the assembly of the necessary property, and a successful developer solicitation was completed. The facility has been operated profitably, according to projections of the third study which solved for feasibility, for 18 years.

– Ernest E. Bleinberger is principal of Andover-based Strategy 5 LLC, an urban economics consulting firm with national experience. His 28-year career has included work in 300 cities and towns, spanning downtown revitalization, large-scale master plans, cultural arts and heritage attractions, gaming facilities, hotels and conference centers, mixed-use development, aviation industry projects, and innovation centers, among other varied assignments. He can be reached at eb@strategy5.net.