



## MEMORANDUM

To: Shelley Navari, Vice President of Finance, Champlain College

From: David G. White

Date: March 10, 2020, Revised February 28, 2021

Re: 8 Browns Court – Economic Feasibility Assessment

This memorandum summarizes my analysis and findings relative to the economic feasibility of renovating Champlain's two-unit residential building located at 8 Browns Court. The original report used data from the June 2019 Allen, Brooks and Minor Report (ABMR), which is the most comprehensive database of income, expenses, and sales values for commercial and investment properties in the Chittenden County area. This revised report uses data from the more recent June 2020 ABMR.

In August 2018, a two-unit building owned by Champlain College located at 8 Browns Court was damaged by fire. Since then, it has been vacant while Champlain evaluated its options for the property. Initially the assumption was that it would renovate and re-lease the units. Extensive renovations would be required throughout due to considerable smoke and water damage.

Subsequently, an analysis done in May 2019 by Engineering Ventures made it clear even more renovations would be needed. Their analysis determined the property is not currently structurally sound due to problems with the foundation and roof which they identified. Following this HP Cummings Construction was asked for a cost estimate for the required renovations.

My scope was to evaluate the post-renovation value of the property and render an opinion as to whether it is economically feasible to proceed. To accomplish this, I used information from Champlain regarding historic rental income and operating costs and from ABMR. Based on these sources and using industry-standard methodology, I prepared an operating proforma and value estimate.

### **Factors used in proforma analysis and valuation**

The subject property, 8 Browns Court, is a wood-frame clapboard structure built in 1899. It has two-units (one 1<sup>st</sup> floor and the other on the 2<sup>nd</sup> floor). Each unit has two bedrooms and a single bathroom. The 1<sup>st</sup> floor unit is approximately 713 square feet and the 2<sup>nd</sup> floor unit is approximately 629 square feet.

#### Income –

Rental income – ABMR indicates 2-bedroom units average \$1,361/month rent plus tenants pay their own utilities. Such units typically average between 960 to 1,100 square feet. Thus, the subject units are considerably smaller than typical. Historically, the subject property has been rented with utilities included because the utilities are not separated. Champlain reports utilities have cost \$3,100/yr or about \$129/month for each apartment. This is confirmed by ABMR which indicates utilities typically average approximately \$126/month per unit. The larger of the two units in the subject property is about 74% of the size of the small end of the typical range. A direct pro-ration of average rents indicates a monthly rent of \$1,007. I judge this to be lower than the likely rent. While such small units are likely to rent for something less than the average market rent, to be conservative I nonetheless elected to use ABMR's average rent of \$1,361/month plus utilities of \$129 totaling \$1,490/month for each apartment. This will tend to overestimate the property value.

Vacancy rate – ABMR shows current apartment vacancy rates in the urban area of Chittenden County (as distinct from suburban areas) to be 2.8%, with a county-wide long-term average vacancy rate of 1.8%. It is questionable whether the averages apply to a two-unit building because if even one unit is vacant for a single month after one tenant leaves and before another occupies (for cleaning, repairs, etc.), that would be 4.2% vacancy. Nonetheless, to be conservative I have elected to assume the lowest vacancy rate of 1.8% in this analysis. This will tend to overstate the property value.

#### Operating Expenses –

Repairs & Maintenance – Champlain has limited operating history on which to base long-term actual average maintenance expenses. I have elected to use ABMR, which shows \$1,834 per year average repairs & maintenance per unit. This would total \$3,668.

To be conservative, I have reduced it to \$3,000 per year total for my analysis. This will tend to overstate the value.

Snow removal and grounds – ABMR shows \$369/unit/year for a total of \$738. I have used \$500/year because there is no driveway or parking to plow. Nonetheless, there is an entry walk and stairs to shovel as well as modest grounds to mow and maintain.

Rubbish removal – I have assumed \$50/month combined for \$600 total per year.

Utilities – I have used actual costs obtained from Champlain

Management – I have applied a cost of 5% of gross income, which is at the low end of what is typical in the market. ABMR assumes 8%. I've also assumed \$170/year accounting and legal costs.

Property Taxes – The City currently shows \$6,349/year.

Insurance – I've used \$600/year based on an estimate from Champlain.

Replacement reserve – I've used a conservative 2% factor.

Value estimate –

Cap Rate – The value of a rental property is generally a function of the Net Operating Income (NOI) it is expected to generate and the market Capitalization Rate or “Cap Rate”. Cap Rate is the ratio between NOI and the sales price of a property. Cap Rates are determined based on what investors are paying for similar properties in the same market area. Through the first half of 2020 ABMR shows an average 6.6% Cap Rate for 3 to 4-unit residential properties in the broader Chittenden County area. They do not supply Cap Rates for smaller rental properties. This is higher than the 6.2% cap rate they measured for 3 to 4-unit properties in 2019, which was the lowest rate they have measured for at least a decade. Because a lower Cap Rate results in a higher value, to be conservative I have elected to use this lower rate.

Value – Based on the forgoing, the property is projected to have Effective Gross Income of \$35,116, Operating Expenses of \$16,777, and an NOI of \$18,339. Using a cap rate of 6.2% generates a value of \$295,793.

Government Property Assessment – As one indicator, I also examined the City of Burlington assessment for the property, which is \$206,300. The state's Common Level of Appraisal (CLA) for Burlington (CLA is the state's estimate of the ratio between a

municipality's property assessments and actual market value), is 74.77%. Applying this to the assessed value of \$206,300 derives a rough estimate of the actual market value to be \$275,913. While this cannot be relied on for a firm conclusion of actual value it nonetheless generally supports my estimate of value.

### **Conclusion**

Based on the above-described analysis I estimate the maximum post-renovation value of 8 Browns Court to be \$295,000 (copy attached). Because I have elected to use multiple conservative assumptions which tend to cause the value to be over-stated, the actual value is likely lower. Regardless, the HP Cummings estimate, dated 1/8/2020, (copy attached) totaling \$406,879 is 38% higher than this maximum estimated value.

My conclusion is that renovating 8 Browns Court is not economically feasible.

I am happy to answer any questions you may have.

DEVELOPMENT PROFORMA ANALYSIS

PROJECT: **Browns Court Rehabilitation**

DATE: **02/28/21**

SCENARIO: **valuation**



REVENUES	Monthly Rent	Stabilized Yr 1
<b>Base Rents</b>		
<b>1st flr - 2 bedroom, 713 SF</b> (utilities included)	\$1,490.00	17,880
<b>2nd flr - 2 bedroom, 629 SF</b> (utilities included)	\$1,490.00	17,880
Gross Rent		35,760
Vacancy Rate:		1.8%
Vacancy:		644
<b>EFFECTIVE GROSS INCOME:</b>		35,116
<b>OPERATING EXPENSES:</b>		
<b>Maintenance</b>		
Repairs & Maintenance	\$1,834/unit per Allen, Brooks & Minor	3,000
Snow/Grounds	\$369/unit per Allen, Brooks & Minor	500
Rubbish	assume \$50/mo.	600
<b>Utilities</b>		
Electric	per Champlain	1,100
Water/Sewer	per Champlain	300
Gas	per Champlain	1,700
<b>Management</b>		
Management Fees	5.0%	1,756
Legal/Accounting	\$85/unit per Allen, Brooks & Minor	170
<b>General</b>		
Property Taxes	per City	6,349
Insurance	per Champlain	600
Replacement Reserve	2.0%	702
Other/Misc		0
<b>TOTAL OPERATING EXPENSES:</b>		16,777
<b>NET OPERATING INCOME (NOI):</b>		18,339

<b>CAPITALIZED VALUE ANALYSIS</b>		Stabilized Yr 1
Net Operating Income		18,339
Capitalization Rate	Per Allen, Brooks & Minor	6.2%
<b>Capitalized Value</b>		<b>295,793</b>

DISCLAIMER NOTICE: All financial projections and other information furnished herein are provided for general reference purposes only. These projections and other information have been based upon various assumptions relating to the general economy, competition and other factors beyond White + Burke Real Estate Advisors, Inc.'s (W+B's) reasonable control, and therefore these are subject to material variation. Furthermore, neither W+B nor any of its staff is acting as an attorney, accountant or financial planner and therefore no opinion is given or implied as to the legal sufficiency, tax implications or financial prudence of any investment or other financial activity. W+B strongly advises consulting with an attorney, accountant and/or other professional advisor(s) prior to making any material financial decisions. There is no guarantee that past performance is any indication of future performance. Future value or income is not guaranteed. Neither W+B, nor its stockholder(s), representatives, or employees make any representation or warranty, expressed or implied, as to the accuracy or completeness of this projection, nor of any other information or contents herein.

**8 Browns Court - Champlain College  
Burlington, VT**

Date: 1/8/2020

*Estimated by: HP Cummings Construction Co.  
Attn: Mike Hulbert*

Revision 0

	Description	Qty	Unit	Labor Unit	Labor	Material Unit	Material Total	Total
<b>01-000-01</b>	<b>General &amp; Special Conditions</b>							
<b>01-012-01</b>	<b>Field Supervision</b>							
	Project Manager (50%)	5	mo	\$2,300.00	\$11,500	\$0.00	\$0	\$11,500
	Superintendent (50%)	5	mo	\$1,200.00	\$6,000	\$0.00	\$0	\$6,000
<b>01-018-01</b>	<b>Safety Program</b>							
	First aid	5	mo	\$35.00	\$175	\$50.00	\$250	\$425
	Safety	5	mo	\$50.00	\$250	\$25.00	\$125	\$375
	Protective Equipment	5	mo	\$0.00	\$0	\$50.00	\$500	\$500
	Inspections/Safety Meetings	5	mo	\$100.00	\$500	\$0.00	\$0	\$500
<b>01-335-01</b>	<b>Protect and Repair Grounds</b>							
	Temporary Signage	1	ls	\$250.00	\$250	\$250.00	\$250	\$500
	<b>Item Total</b>				\$18,675		\$1,125	\$19,800
<b>02-100-00</b>	<b>Demolition &amp; Alterations</b>							
	<b>02100 Building Demolition</b>							
	<b>Subcontract Furnish &amp; Install</b>						\$0	
	Demo Interior	1	ls	\$30,000.00	\$30,000		\$0	\$30,000
					\$0		\$0	\$0
	<b>Item Total</b>				\$30,000		\$0	\$30,000
<b>02-200-00</b>	<b>Sitework</b>							
	<b>02200 Earthwork</b>							
	<b>Subcontract Furnish &amp; Install</b>					\$0	\$0	\$0
	Excavate, shore & remove for new foundation	1	ls	\$0.00	\$0	\$36,000.00	\$36,000	\$36,000
	Regrade at Building Perimeter	1	ls	\$1,000.00	\$1,000	\$200.00	\$200	\$1,200
	Reseed and Mulch Yard	1	ls	\$1,500.00	\$1,500	\$1,000.00	\$1,000	\$2,500
					\$0		\$0	\$0
	<b>Item Total</b>				\$2,500		\$37,200	\$39,700
<b>03-300-00</b>	<b>Concrete</b>							
	<b>03300 Concrete</b>							
	<b>Subcontract Furnish &amp; Install</b>					\$0	\$0	\$0
	Concrete Sidewalk to Bulkhead	1	ls	\$500.00	\$500	\$1,000.00	\$1,000	\$1,500
	Structural Foundation Shoring and Repairs	1	ls	\$10,000.00	\$10,000	\$16,000.00	\$16,000	\$26,000
	Shore up Building	1	ls	\$500.00	\$500	\$22,000.00	\$22,000	\$22,500
	New Foundation	39	cy		\$0	\$700.00	\$27,300	\$27,300
					\$0		\$0	\$0
	<b>Item Total</b>				\$11,000		\$66,300	\$77,300
<b>06-100-00</b>	<b>Rough Carpentry</b>							
	<b>06100 Rough Carpentry</b>							
	<b>Subcontract Furnish &amp; Install</b>						\$0	\$0
	Roof Framing Repairs	1	ls	\$9,000.00	\$9,000	\$7,000.00	\$7,000	\$16,000
	Foundation Sill Repairs	1	ls	\$4,500.00	\$4,500	\$2,000.00	\$2,000	\$6,500
					\$0		\$0	\$0
	<b>Item Total</b>				\$13,500		\$9,000	\$22,500
<b>06-200-00</b>	<b>Finish Carpentry &amp; Millwork</b>							
	<b>06200 Finish Carpentry</b>							
	<b>Subcontract Furnish &amp; Install - Incl in Div 6</b>					\$0	\$0	\$0
	Cabinets and Vanities	1	ea	\$1,250.00	\$1,250	\$2,500.00	\$2,500	\$3,750
	Countertops	2	ea	\$500.00	\$1,000	\$1,000.00	\$2,000	\$3,000
					\$0		\$0	\$0
	<b>Item Total</b>				\$2,250		\$4,500	\$6,750
<b>07-000-00</b>	<b>Thermal &amp; Moisture Control</b>							
	<b>07200 Insulation</b>							
	<b>Subcontract Furnish &amp; Install</b>					\$0	\$0	\$0
	Acoustical Insulation	1	ls	\$3,000.00	\$3,000	\$1,500.00	\$1,500	\$4,500
	Spray Foam Insulation at Exterior	1	ls	\$5,000.00	\$5,000	\$6,000.00	\$6,000	\$11,000
					\$0		\$0	\$0
	<b>07320 Siding</b>							
	<b>Subcontract Furnish &amp; Install</b>						\$0	\$0
	Replace Siding	1	ls	\$4,500.00	\$4,500	\$3,000.00	\$3,000	\$7,500
					\$0		\$0	\$0
	<b>07540 Roofing</b>							
	<b>Subcontract Furnish &amp; Install</b>						\$0	\$0
	Repair Slate Roof	1	ls	\$12,000.00	\$12,000	\$7,600.00	\$7,600	\$19,600
					\$0		\$0	\$0
	<b>07600 Caulking Sealants</b>							
	<b>Subcontract Furnish &amp; Install</b>						\$0	\$0
	Misc. Sealants	1	ls	\$2,000.00	\$2,000		\$0	\$2,000
					\$0		\$0	\$0

	<b>Item Total</b>				<b>\$26,500</b>		<b>\$18,100</b>	<b>\$44,600</b>
<b>08-000-00</b>	<b>Doors, Windows, &amp; Glass</b>							
	<b>08300 Wood Doors and Frames</b>							
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	Interior Doors and Frames	10	ea	\$100.00	\$1,000	\$150.00	\$1,500	\$2,500
	Exterior Doors and Frames	3	ea	\$100.00	\$300	\$200.00	\$600	\$900
	<b>08710 Finish Hardware - Incl in Div 6</b>				\$0		\$0	\$0
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	Door Hardware	13	ea	\$50.00	\$650	\$50.00	\$650	\$1,300
	<b>08800 Glazing</b>				\$0		\$0	\$0
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	Window Replacement	26	ea	\$500.00	\$13,000	\$750.00	\$19,500	\$32,500
	<b>Item Total</b>				<b>\$14,950</b>		<b>\$22,250</b>	<b>\$37,200</b>
<b>09-000-00</b>	<b>Finishes</b>							
	<b>09200 Gypsum Wallboard Assemblies - Incl in Div 6</b>				\$0		\$0	\$0
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	New Gypsum on Walls	5500	sf	\$1.20	\$6,600	\$1.00	\$5,500	\$12,100
	New Gypsum on Ceilings	1500	sf	\$1.50	\$2,250	\$1.00	\$1,500	\$3,750
	Taping	7000	sf	\$0.50	\$3,500	\$0.40	\$2,800	\$6,300
	<b>09510 Flooring</b>				\$0		\$0	\$0
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	New Wood Flooring	1		\$8,900.00	\$8,900		\$0	\$8,900
	Vinyl Flooring	1		\$2,300.00	\$2,300		\$0	\$2,300
	<b>09900 Painting &amp; Wall Cover - Incl in Div 6</b>				\$0		\$0	\$0
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
		1		\$6,200.00	\$6,200		\$0	\$6,200
	<b>Item Total</b>				<b>\$29,750</b>		<b>\$9,800</b>	<b>\$39,550</b>
<b>10-000-00</b>	<b>Specialties</b>							
	<b>10100 Specialties</b>							
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	Bathroom Specialties	2		\$150.00	\$300	\$150.00	\$300	\$600
	<b>Item Total</b>				<b>\$300</b>		<b>\$300</b>	<b>\$600</b>
<b>11-000-00</b>	<b>Equipment</b>							
	<b>11310 Appliances</b>							
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	New Kitchen Appliances	4		\$200.00	\$800	\$500.00	\$2,000	\$2,800
	<b>Item Total</b>				<b>\$800</b>		<b>\$2,000</b>	<b>\$2,800</b>
<b>15-100-00</b>	<b>Mechanical</b>							
	<b>15100 Plumbing HVAC</b>							
	<b>Subcontract Furnish &amp; Install</b>				\$0		\$0	\$0
	Replace Ductwork	1	ls	\$5,000.00	\$5,000	\$4,000.00	\$4,000	\$9,000
	Replace Piping	1	ls	\$6,000.00	\$6,000	\$5,000.00	\$5,000	\$11,000
	Replace Shower Surrounds	1	ls	\$3,000.00	\$3,000	\$1,000.00	\$1,000	\$4,000
	<b>Item Total</b>				<b>\$14,000</b>		<b>\$10,000</b>	<b>\$24,000</b>
<b>16-100-00</b>	<b>Electrical</b>							
	<b>16100 Electrical</b>							
	<b>Subcontract Furnish &amp; Install</b>				\$14,000		\$0	\$14,000
	<b>Item Total</b>				<b>\$14,000</b>		<b>\$0</b>	<b>\$14,000</b>

**Totals \$178,225 \$0 \$180,575 \$358,800**

Estimating Contingency 8.00% \$28,704

Sub Total \$387,504

CM Fee 5.00% \$19,375

**Total Budget \$406,879**

**ESTIMATE CLARIFICATIONS**

- Roof repairs assumed to be relatively simple, and not require framing of the entire roof framing
- Finishes to match that of originally approved finishes for the building