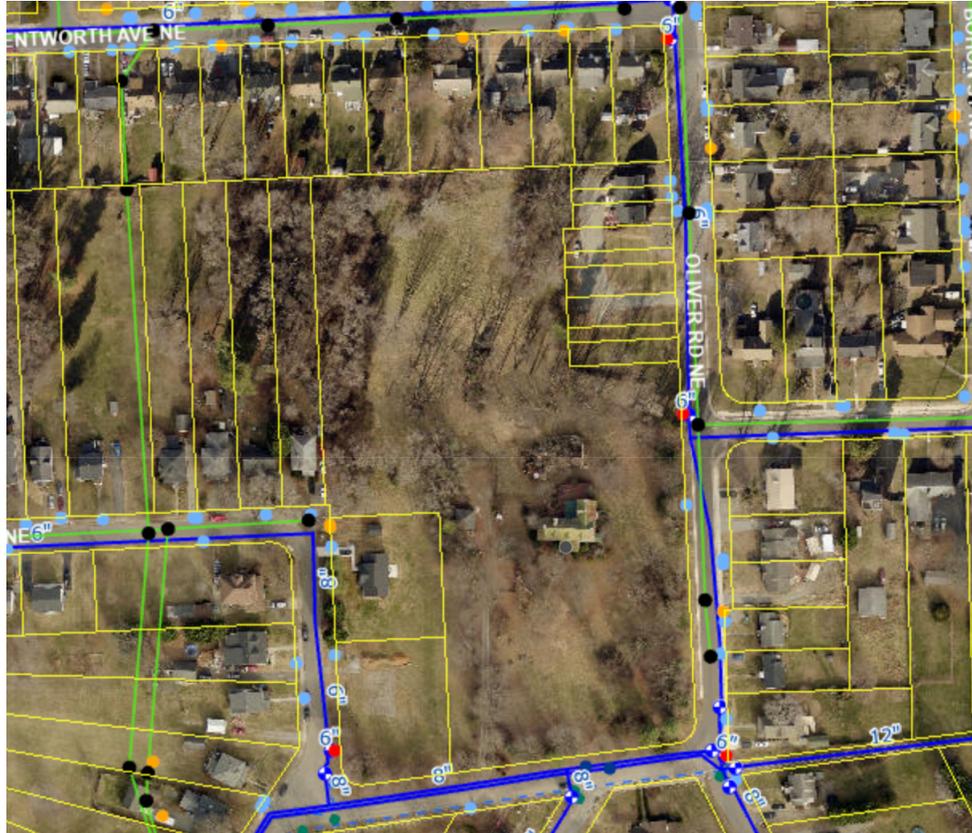




320 Huntington Boulevard



DEVELOPMENT FEASIBILITY REPORT

Huntington House Parcel, Roanoke VA

Approx. 5 Acres, Infill Residential Site
Analysis of Build-to-Sell and Build-to-Rent Townhome Scenarios

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Date: December 09, 2025



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1. Executive Summary

This report evaluates whether a private developer could profitably acquire and develop the approximately 5 acre Huntingdon House parcel in Roanoke, Virginia, by either:

- Demolishing the existing historic structure and constructing townhomes for **for-sale** units, or
- Demolishing the existing structure and constructing townhomes to hold as **rental** units.

The analysis assumes the **most favorable development approach for profit**:

- Use only the **southern and eastern frontages** for construction.
- Build a compact, attached product (**townhomes**), not large detached homes.
- Use **private parking courts** instead of a public street.
- Tie into the existing **8 inch sewer line** and extend water in the shortest practical path.
- Keep soft costs and site costs as **low as realistically possible** for Roanoke.

Even under these very optimistic conditions, both for-sale and for-rent models generate **substantial losses**, with **negative returns in all scenarios** tested. The parcel can only be justified as a **historic or preservation acquisition**, not as a profit-driven development project.



2. Site Overview and Constraints

- **Parcel size:** Approximately 5 acres
- **Existing improvement:** Historic residence listed on the **National Register of Historic Places**
- **Surrounding context:** Small lot single family neighborhood, modest home values, existing townhomes on at least one block nearby

Utilities:

- Existing **8 inch sewer line** along the street frontage
- Municipal water available in the right of way
- No existing internal utility lines across the parcel

Physical constraints:

- Majority of acreage is **interior**, without direct street frontage
- Realistic buildable area is limited to the **southern and eastern edges**
- Any use of the interior for structures requires construction of a **new road**, which is not economically justified given surrounding values

Regulatory and political constraints:

- National Register structure at the center of site
- Demolition of this structure would trigger **public backlash, regulatory scrutiny, and political risk**
- Zoning and density increases are not guaranteed and would likely face **neighborhood opposition**

For purposes of this report, we assume that demolition of the historic home is **theoretically allowed**, so that the analysis is as generous as possible to a speculative developer.



3. Development Program Assumed

Two density bands are evaluated, reflecting what the frontage and geometry might reasonably support:

- **Low yield:** 8 townhome units
- **High yield:** 11 townhome units

These units are assumed to be:

- 2 or 3 story attached townhome product
- Basic but code compliant finish level
- No underground parking, surface parking only
- Served by **two private parking courts**, similar in style and quality to nearby townhome developments on the same street

4. Cost Assumptions and Definitions

Numbers below are **order-of-magnitude feasibility estimates**, based on Roanoke-friendly assumptions and minimal infrastructure. These are not “padded”; if anything, they are **aggressive in favor of the project**.

4.1 Site Preparation

Demolition of existing historic house

Includes environmental surveys (asbestos, lead paint), mechanical demolition, hauling, and tipping fees.

- Low: **\$40,000**
- High: **\$80,000**

Clearing and rough grading

Removal of trees and brush, stripping topsoil, rough grading to establish build pads and parking lot subgrades.

- Low: **\$80,000**
- High: **\$160,000**



Erosion and sediment control

Silt fencing, inlet protection, temporary seeding, and monitoring required by DEQ and local ordinance.

- Low: **\$20,000**
- High: **\$35,000**

Site prep subtotal:

- Low: **\$140,000**
- High: **\$275,000**

4.2 Utilities

Sanitary sewer connection to 8" main

Commercial tap fees, new manhole or connection to existing, laterals to each building, trenching, bedding, backfill, and asphalt patching in the right of way.

- Low: **\$80,000**
- High: **\$120,000**

Domestic water line extension

Extension from existing main, hydrant, valves, meters, backflow prevention, and associated trenching and restoration.

- Low: **\$60,000**
- High: **\$100,000**

Electric, telecom, and cable extensions

Extension to pad mount transformer or upgraded pole, conduits, and service runs to buildings.

- Low: **\$25,000**
- High: **\$60,000**

Utilities subtotal:

- Low: **\$165,000**
- High: **\$280,000**



4.3 Stormwater Management

Stormwater is a **non-negotiable** item for any new multi-unit development.

Scope includes:

- Hydrology study and stormwater design by a civil engineer.
- A best management practice (BMP) system, such as a detention basin, bioretention cell, or underground storage.
- Pipe network, inlets, outlet control structures, and tie-in to existing drainage.

Estimated cost:

- Engineering: **\$15,000 – \$30,000**
- BMP or basin: **\$70,000 – \$120,000**
- Drainage piping and structures: **\$25,000 – \$50,000**

Stormwater subtotal:

- Low: **\$110,000**
- High: **\$200,000**

4.4 Access and Parking

This scenario assumes:

- No new public street built to city roadway standards.
- **Two private access and parking courts**, similar to nearby townhome clusters.
- Paving, curb, minimal striping, and a modest entrance apron from the public street.

Estimated cost:

- Two asphalt parking courts: **\$200,000 – \$260,000** total
- Entrance apron and minimal curb: **\$10,000 – \$20,000**



Access and parking subtotal:

- Low: **\$210,000**
- High: **\$280,000**

4.5 Soft Costs

Soft costs include:

- Professional fees, such as land surveying, civil engineering, architectural design, and geotechnical investigation.
- Legal fees for contracts, easements, and closing.
- Permitting costs and application fees.
- Insurance and contingency allowances.

Estimated soft costs:

- Low: **\$50,000**
- High: **\$100,000**

5. Total Site Development Cost

Combining the categories above:

Category	Low Estimate	High Estimate
Site Preparation	\$140,000	\$275,000
Utilities	\$165,000	\$280,000
Stormwater Management	\$110,000	\$200,000
Access & Parking	\$210,000	\$280,000
Soft Costs	\$50,000	\$100,000
Total Site Cost	\$665,000	\$1,135,000

These totals are already on the **conservative side** for a 5 acre infill site.



6. Vertical Construction Cost

Townhome construction costs are based on modest, code compliant product. They exclude any luxury finishes.

Per unit construction cost assumption:

- Low: **\$180,000 per unit**
- High: **\$240,000 per unit**

Total building costs:

- **8 units:**
 - Low: **\$1,440,000**
 - High: **\$1,920,000**
- **11 units:**
 - Low: **\$1,980,000**
 - High: **\$2,640,000**

7. Total Project Cost Summary

7.1 For 8 Townhome Units

- Total site cost: **\$665,000 – \$1,135,000**
- Vertical construction: **\$1,440,000 – \$1,920,000**

Total project cost (8 units):

- Low: **\$2,105,000**
- High: **\$3,055,000**

7.2 For 11 Townhome Units

- Total site cost: **\$665,000 – \$1,135,000**
- Vertical construction: **\$1,980,000 – \$2,640,000**



Total project cost (11 units):

- Low: **\$2,645,000**
- High: **\$3,775,000**

Note: **Land acquisition cost is not yet included.** Any price paid to the current owner would be **incremental** to these figures and would further worsen returns.

8. PART A: BUILD TO SELL ANALYSIS

8.1 Revenue Assumptions for For-Sale Units

Resale values are constrained by existing home values in the surrounding neighborhood. New construction townhomes **cannot appraise far above local comparable sales.**

Per unit sale price range:

- Low: **\$170,000**
- High: **\$210,000**

Total gross revenue:

- **8 units:**
 - Low: **\$1,360,000**
 - High: **\$1,680,000**
- **11 units:**
 - Low: **\$1,870,000**
 - High: **\$2,310,000**

There are no retail innovations or product types that can reliably push values significantly outside this range given the comparables near the subject property.



8.2 Gross Profit or Loss, Build to Sell

Compare total project cost to gross revenue.

8.2.1 8 units, for sale

- Total cost: **\$2,105,000 – \$3,055,000**
- Total revenue: **\$1,360,000 – \$1,680,000**

Result:

- **Best case loss** (low cost, high price):
 $\$2,105,000 - \$1,680,000 = \text{loss of } \$425,000$
- **Worst case loss:**
 $\$3,055,000 - \$1,360,000 = \text{loss of } \$1,695,000$

There is no scenario where an 8-unit for sale project produces a profit.

8.2.2 11 units, for sale

- Total cost: **\$2,645,000 – \$3,775,000**
- Total revenue: **\$1,870,000 – \$2,310,000**

Result:

- **Best case loss:**
 $\$2,645,000 - \$2,310,000 = \text{loss of } \$335,000$
- **Worst case loss:**
 $\$3,775,000 - \$1,870,000 = \text{loss of } \$1,905,000$

Again, there is no configuration of realistic costs and sale prices that produces a positive return.

8.3 Build to Sell Conclusion

Under conservative, Roanoke specific assumptions, a developer attempting to build townhomes for sale on this parcel would face **certain losses** in the hundreds of thousands to nearly **two million dollars**, depending on cost overruns.



For this reason, the property **cannot be treated** as a for sale development opportunity at any positive land price.

Even if the land were **gifted**, the project would only **barely approach break-even** in the most optimistic case.

9. PART B: BUILD TO RENT ANALYSIS

Since a seller might argue that the site could function as a **rental property** rather than a for sale subdivision, we test that scenario below.

9.1 Rental Revenue Assumptions

Assume market rent per unit:

- Low: **\$1,200 per month**
- High: **\$1,500 per month**

This is already on the generous side for a modest neighborhood that is not a Class A rental district.

9.1.1 Gross rent calculations

8 units:

- At \$1,200 per month:
 - Gross monthly rent: **\$9,600**
 - Gross annual rent: **\$115,200**
- At \$1,500 per month:
 - Gross monthly rent: **\$12,000**
 - Gross annual rent: **\$144,000**



11 units:

- At \$1,200 per month:
 - Gross monthly rent: **\$13,200**
 - Gross annual rent: **\$158,400**
- At \$1,500 per month:
 - Gross monthly rent: **\$16,500**
 - Gross annual rent: **\$198,000**

9.2 Net Operating Income (NOI) Calculation

We apply standard multifamily underwriting assumptions:

- **Vacancy and credit loss:** 5 percent
- **Operating expenses** (maintenance, management, insurance, taxes, reserves): 35 percent of effective gross income

Formula:

1. Effective gross income (EGI) = Gross rent \times (1 – 0.05)
2. NOI = EGI \times (1 – 0.35)

9.2.1 8 units

- At \$1,200 rent:
 - Gross annual: \$115,200
 - EGI: $\$115,200 \times 0.95 =$ **\$109,440**
 - NOI: $\$109,440 \times 0.65 \approx$ **\$71,136 per year**
- At \$1,500 rent:
 - Gross annual: \$144,000
 - EGI: $\$144,000 \times 0.95 =$ **\$136,800**
 - NOI: $\$136,800 \times 0.65 \approx$ **\$88,920 per year**



9.2.2 11 units

- At \$1,200 rent:
 - Gross annual: \$158,400
 - EGI: \$150,480
 - NOI: $\$150,480 \times 0.65 \approx$ **\$97,812 per year**

- At \$1,500 rent:
 - Gross annual: \$198,000
 - EGI: \$188,100
 - NOI: $\$188,100 \times 0.65 \approx$ **\$122,265 per year**

These NOI figures are generous; any spike in insurance, taxes, or repairs would lower them.

9.3 Debt Service and Financing Feasibility

Assume a typical development capital structure:

- 25 percent equity
- 75 percent loan to value (LTV)
- Interest rate: **7 percent**
- Amortization: **25 years**

This is consistent with a small to mid sized private developer borrowing for a local townhome project.

9.3.1 Annual debt service estimate

Using the total project costs from Section 7, the resulting loan sizes and approximate annual debt payments are:



8 units:

- Total project cost range: **\$2,105,000 to \$3,055,000**
- 75 percent loan:
 - Low cost case: loan \approx **\$1,578,750**
 - High cost case: loan \approx **\$2,291,250**

Annual debt service (7%, 25 years) is approximately:

- Low cost case: about **\$134,000 per year**
- High cost case: about **\$194,000 per year**

11 units:

- Total project cost range: **\$2,645,000 to \$3,775,000**
- 75 percent loan:
 - Low cost case: loan \approx **\$1,983,750**
 - High cost case: loan \approx **\$2,831,250**

Annual debt service:

- Low cost case: about **\$168,000 per year**
- High cost case: about **\$240,000 per year**

9.4 Debt Service Coverage Ratio (DSCR)

Lenders typically require a **Debt Service Coverage Ratio (DSCR)** of at least **1.20**.

DSCR = NOI \div Annual Debt Service

Anything below 1.00 means the property does not produce enough income to pay its loan.

9.4.1 8 units

- NOI range: **\$71,136 to \$88,920** per year
- Debt service range: **\$134,000 to \$194,000** per year



Result:

- Best case DSCR (high NOI, low debt):
 - $88,920 \div 134,000 \approx \mathbf{0.66}$
- Worst case DSCR:
 - $71,136 \div 194,000 \approx \mathbf{0.37}$

In every case DSCR is **well below 1.00**. The property would operate at a cash flow deficit and would not qualify for conventional permanent financing.

9.4.2 11 units

- NOI range: **\$97,812 to \$122,265** per year
- Debt service range: **\$168,000 to \$240,000** per year

Result:

- Best case DSCR:
 - $122,265 \div 168,000 \approx \mathbf{0.73}$
- Worst case DSCR:
 - $97,812 \div 240,000 \approx \mathbf{0.41}$

Again, DSCR is **far below lendable standards**. The project does not generate enough cash flow to carry its own debt.

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9.5 Capitalization Rate (Cap Rate) Analysis

To address the argument that a **cash buyer** could make the property work without financing constraints, we evaluate the **Capitalization Rate (Cap Rate)**:

Cap Rate = NOI ÷ Total Project Cost

This measures the **annual return on total invested cash**.

Even eliminating all debt service and assuming a 100% cash acquisition, the property's **annual return on investment is critically low**.



9.5.1 8-Unit Scenario – Cap Rate

- Best case NOI: **\$88,920**
- Lowest total cost: **\$2,105,000**

Cap Rate:

$$88,920 \div 2,105,000 \approx 4.22\%$$

This is **far below** the minimum return expected for:

- Infill development
- Demolition of a historic structure
- Complex stormwater and utility extension risk
- A small project with no economies of scale

A rational all-cash investor would not accept a **4.22%** yield for this level of complexity and risk.

9.5.2 11-Unit Scenario – Cap Rate

- Best case NOI: **\$122,265**
- Lowest total cost: **\$2,645,000**

Cap Rate:

$$122,265 \div 2,645,000 \approx 4.62\%$$

Typical expectations:

- **6–7%** for stabilized, low-risk multifamily in strong markets
- **8–12%** for infill or value-add redevelopment
- **12–20%+** for small, high-risk, non-institutional sites like this one

At **4.62%**, this project does **not** meet any reasonable risk-adjusted hurdle rate. It underperforms even conservative “core” investments with much less risk.

Summary of Cap Rate Analysis:

- The project **fails as a rental even if the land were free.**



- The project **fails even if construction financing is free.**
- The project **fails even if an investor pays all cash.**

The NOI is simply **too small** relative to the capital required.

9.6 Build to Rent Conclusion

Even with very optimistic assumptions on rent (\$1,500 per month) and very aggressive low-end cost estimates, an 8 to 11 unit rental townhome project on this parcel:

- Fails to service its debt (DSCR well below 1.0),
- Produces negative cash flow under normal financing, and
- Delivers a sub-5% Cap Rate **even for a 100% cash buyer.**

A rational rental developer would conclude that this site **cannot support the cost of vertical and horizontal improvements at any positive land value.**

In simple terms, the project does **not** make sense as a rental, **even if the land were given away at no cost.**

10. Overall Conclusion and Implications for Land Value

This report has evaluated:

1. A **build to sell** townhome strategy, and
2. A **build to rent** townhome strategy (both leveraged and all-cash),

under very favorable assumptions that lean toward making the project work.

In both cases, the following facts hold:

- Site development costs for a 5 acre infill parcel are **substantial**, even when minimized.
- Vertical construction costs for townhome units in Roanoke cannot realistically be reduced below roughly **\$180,000 per unit** without unacceptable quality or code issues.
- Surrounding home values cap **for sale exit prices.**



- Local rents at this location do not generate enough **Net Operating Income** to carry the required debt or justify the capital outlay.
- The majority of the parcel functions as **non-buildable interior land** without a new road, so the effective yield is limited to a narrow band of **8 to 11 units**.
- Demolition of a National Register structure introduces additional cost and risk, but was still assumed to be allowed in order to be generous to the development case.

Three-Pronged Failure:

1. Fails as Build-to-Sell

- Guaranteed negative profit in every scenario.

2. Fails as Leveraged Build-to-Rent

- DSCR too low; project cannot service its debt.

3. Fails as Cash Build-to-Rent

- Cap Rate in the **4.2–4.6%** range is far too low for the risk profile.

Under these conditions:

- No conventional developer can make this parcel financially viable as a **for sale** project.
- No conventional developer or long-term investor can make it financially viable as a **rental** project, with or without leverage.
- Even assuming the land is **free or nearly free**, the economics are marginal at best and likely still negative once real-world overruns are included.

Conclusion:

From a strict development and underwriting standpoint, the parcel should **not** be valued as a high-potential subdivision or townhome site. Its realistic market value as “development land” is **severely limited**, because both major profit models, build to sell and build to rent, are structurally infeasible.

Any premium value that remains in this property is tied to its **historic and cultural significance**, **not** its development potential.