



# Berks Market:

**Driving Equity through Inclusive Urban Development in Norris Square, Philadelphia**

JORDAN MAYS, ELLEN PAIK, MARQUES STEVENSON, CAROLINE LI



**Table of Contents**

Executive Summary..... 2

Project Background and Partnerships..... 3

Site Selection..... 4

Development Proposal..... 6

SWOT Analysis..... 7

Financial Analysis..... 7

Project Risks and Risk Mitigants..... 8

Conclusion..... 8

## Executive Summary

Berks Market ("Property") (1939-57 North Front Street) offers an innovative approach to inclusive urban development by providing affordable housing and retail space directly adjacent to Berks Station at the intersection of North Front Street and West Norris Street. Conveniently located on the outskirts of Norris Square by Berks Station, in proximity to the Fishtown and Northern Liberties neighborhoods (~15-20min walk from Berks Station): two formerly-industrial areas that have recently become Philadelphia's culinary, arts, and music hubs. Fishtown and Northern Liberties represent success stories for community-driven, urban revitalization efforts for low-income, working-class White Americans. Through Berks Market, our team hopes to extend similar upward economic mobility opportunities to Norris Square, a community of predominantly low-income Puerto-Rican and African American residents.

### Project Specs

Berks Market is a 139-unit mixed-income multifamily project that includes ~10,000 sf of ground floor retail, ~12,000 sf of underground parking (70 spaces), ~5,500 sf of community living space, and ~8,300 sf of roof space devoted to providing a green space led and managed by the local community. There are two types of housing units offered (Studio and 2-Bedroom), and 50% of all units are dedicated to maintaining affordable rental rates that are accessible to the low-income community in Norris Square. **Exhibit 1** provides a visual summary of Berks Market's floor-by-floor breakdown.

With an expected 17% equity IRR and 2.0x equity multiple, Berks Market offers an exciting opportunity for outsized returns in both financial performance and transformative, long-term social impact in Northeast Philadelphia.

### Combatting COVID-19's Negative Economic Impact on Small Businesses

Philadelphia ranks among the [25 largest counties in the United States](#) by population. According to a [Jun-2020 report from the Office of the Controller](#) in Philadelphia, of this list, the city entered the COVID crisis with the highest unemployment rate (5.9%) and highest poverty rate (24.5%); at the time of the report, 68.6% of workers in Philadelphia (national average: ~50%) were working in industries most challenged by shutdowns prompted by COVID-19 (namely retail trade, transportation, educational services, and health care). Philadelphia's large share of 17,000+ small businesses in the food and accommodation sectors led to a disproportionately large, devastating impact on the local economy. Nationally, the economic burden of COVID-19 has fallen on the most disadvantaged neighborhoods in urban environments. By providing retail space and affordable housing access to the Norris Square community, Berks Market serves to provide ~50-70 storefronts for small businesses looking to capitalize on the premium location offered by the property.

### Paving the Way for a "Greener" Philadelphia

The Market-Frankford Line (MFL), known as "the El" by Philadelphians, was built in the early 1900s to connect working-class, immigrant neighborhoods to Philadelphia's downtown and "Center City". During the 70s and 80s, many of these neighborhoods emptied out because of suburbanization and communities moved out further from the city; Front Street became riddled with crime, and Norris Square Park became known as "needle park."

The city has since experienced a new wave of people (mostly young professionals) rejecting suburbia and looking to move into urban environments; the local government has simultaneously been diligently combating crime in these areas. Recently, Berks Station was proposed as one of four stops on the El as a Transit-Oriented Development (TOD) that would offer incentives for developers to encourage density around transit stations, ultimately driving an environmentally friendly, public transit-oriented approach towards spurring economic development near these stations. Berks Station's location within a municipality with a TOD Zoning Ordinance unlocks potential bonuses for developments located <500ft from the station for projects that include mixed-income housing, public space(s), and underground parking: Berks Market, located just 410ft from Berks Station, includes all three features, signaling a high likelihood of support from local government officials and therefore access to additional benefits/provisions given the property's location.



Berks Station is a stop on the Market-Frankford Line (MFL), the busiest route on the SEPTA System ([the 6th largest rapid transit system in the United States](#)). Boasting a Walk Score of 90, Transit Score of 69, and Bike Score of 84, Berks Market encourages a mobility-first lifestyle for tenants and residents, promoting a healthier lifestyle for the local community while minimizing harm to the environment. Our key partnership with Vessel will also expand the positive environmental footprint of Berks Market through the strategic use of smart-home technology (more detail under “Enterprise Partnership” under “Project Background & Partnerships” on page 4).

## Project Background & Partnerships

According to a [2018 Bloomberg study](#), Philadelphia ranked third on a list of cities in America with the largest income disparities. While some neighborhoods in Philadelphia, like Fishtown (formerly Irish-Catholic and Eastern European immigrant communities), have experienced rapid development in recent years and have quickly become up-and-coming “foodie neighborhoods” on the East Coast, surrounding communities (particularly communities of color) have been left behind without benefitting from the local economic activity occurring within blocks of their homes. Our development project, Berks Market, offers both promising retail business and affordable housing opportunities for residents of Norris Square (primarily low-income Hispanic and African American residents). Our proposed development strives to drive inclusive urban development while capitalizing on the expanding cultural footprint of Northern Philadelphia.

**Norris Square Background:** Located within a Federal Opportunity Zone, Norris Square reported an average Median Household Income of ~\$28,800 (according to the latest U.S. Census Bureau Release), representing one of the lowest-income communities in the city. During [interviews conducted by Penn State students](#) in summer-2020 with members of the local community, residents cited “*housing displacement*” as a key challenge within the neighborhood, and “*cultural and civic pride*” as a key asset. Berks Market addresses the community’s biggest issues (affordable housing) while providing an opportunity to leverage the community’s strong sense of cultural pride by creating spaces for small local businesses. Norris Square is located directly west of Fishtown, a fast-growing arts-and-dining epicenter in Philadelphia that has attracted young professionals that prefer Fishtown’s relatively affordable housing prices over those in Center City. The local park, known as *El Parque de Las Ardillas* (“The Park of Squirrels”) by local residents, serves as the community’s central community space. According to [information gathered from the latest US Census Bureau release](#), there are ~2,100 people living in Norris Square: ~74% with no children, ~58% renter-occupied, with a median age of 31 years old.

The decline in community drug/violence issues and “clean-ups” of the neighborhood were primarily led by leaders within the community. For example, a small group of community activists known as “Grupos Motivos” mobilized the collective efforts of residents to transform [six vacant lots into green spaces](#) that continue to serve the community today and represent the rich Puerto-Rican heritage of the neighborhood. One of the gardens, Villa Africana Colobó, was created in 2006 and features West-African huts, symbolizing West-African influence inherent in Puerto Rico’s history and ancestry. Facing a historical lack of support from the city, Norris Square residents channeled their entrepreneurial spirit and cultural pride toward beautifying the neighborhood through community-led projects. Berks Market will enable the Norris Square community to amplify and channel their voices into shaping this key Northeast Philadelphia development, after many years of neglect and lack of support from the city.

**Nonprofit Partnerships:** Berks Market will collaborate with our nonprofit partner [NoMo Foundation](#) (New Options More Opportunities) to identify small, local, family-owned businesses to occupy the development’s retail and housing spaces. In Nov-2020, NoMo Foundation partnered with 20 black entrepreneurs from the North Philadelphia community to promote their businesses from the foundation’s office space. Berks Market will expand this exciting project by offering retail space to their selected partners and other aspiring entrepreneurs from the community. Our affordable housing development efforts will also include a partnership with [The Way Home Project](#), a new initiative through Philadelphia’s Office of Homeless Services, to reserve a designated percentage of housing

units for youth housing and LGBTQA+ persons in need of housing security.

The development of Berks Market Rooftop will feature partnership with [Urban Creators](#), a local nonprofit using the creation of community gardens as a method of youth employment. We will also work with [The Norris Square Neighborhood Project](#), the organization that collaborated with the founders of [Grupos Motivos](#), Iris Brown and Tomasita Romero, to lead the neighborhood's green space development efforts.

Berks Market will also leverage ties to the University of Pennsylvania community through the development team's Wharton ties. Penn offers many funding opportunities that provide support to initiatives that benefit the broader Philadelphia community; for example, Wharton Impact Investing Partners (WIIP) offers at least \$50,000 in impact-focused grants annually (from a DAF funded by Wharton alumni) for seed/early-stage companies looking to grow. Berks Market entrepreneurs and retail tenants can draw from Penn's resources to support the growth of their businesses.

**Enterprise Partnerships:** To minimize long-term maintenance, depreciation, and utilities costs, we will work with [Vessel](#) to install smart-home technologies into our property. Vessel is a B-Corp technology company that focuses on serving properties that offer below-market rent through their system of sensors and electro-mechanical devices in order to ensure greater safety, sanitation, and efficient energy usage for tenants. Founder and CEO Neil Rubler is a Wharton MBA alumnus with 20+ years of multifamily apartment development/operations experience in Pennsylvania and New Jersey, with strong working relationships with regional government officials and a deep passion for accelerating access to high-quality standards of living for lower-income residences. Neil will serve as a key advisor to the Berks Market development team.

To help mitigate construction risk and ensure successful and timely delivery of Berks Market, [Frankel Enterprises](#), Philadelphia's leading affordable housing developer, will construct and manage the property through stabilization. Frankel Enterprises leverages 50+ years of real estate experience and has developed over 1 million sq ft of commercial spaces. [Comcast](#), Philadelphia headquartered internet service provider, pledged \$1B over the next ten years to provide cutting-edge connectivity for low-income Americans. Berks Market's partnership with Comcast will further close the digital divide throughout the city and provide underserved communities/affordable housing developments the technology resources necessary to succeed in our increasingly digital, connectivity-dependent macro environment.

In response to the economic repercussions of COVID, [Sustainable Business Network of Greater Philadelphia \(SBN\)](#) offers access to microlenders, CDFIs, and micro-relief funds (for example: "Grow Philadelphia Small Business COVID-19 Resilience Fund," "Neighborhood Progress Fund," or "The Enterprise Center COVID-19 Loan"). Retail tenants of Berks Market can collaborate with SBN to secure funding that would provide little-to-no interest loans to fund the launch of their businesses, if needed.

## Site Selection

Berks Market is located at 1939-57 North Front Street (**Exhibit 2**). Driving factors behind our site selection include: 1) prime location that bridges Norris Square with the rest of Philadelphia via the Market-Frankford Line (9-minute commute to Center City); 2) high likelihood of municipal support given location within a TOD (Transit-Oriented Development) Zoning Ordinance region; and 3) regional foot traffic generated by cultural tourism in Fishtown.

### **Philadelphia Housing and Labor Markets**

Philadelphia, the [seventh largest metropolitan area](#) in the U.S., is underpinned by its relative affordability and one of the nation's most resilient multifamily markets. With many Center City-based employers allowing their employees to work from home and residential tenants preferring more spacious, less expensive units, suburban vacancy rates are at all time lows as of Q1 2022 ([2.7%](#)) for higher-income communities. For populations living in the city, after enduring challenges through the first several months of the pandemic, Greater Center City occupancy rates stabilized near 95%

(industry average) after dropping to 90% in the early stages of the economic downturn. Major surrounding universities like University of Pennsylvania, Drexel University, and Temple University announced that they would be returning to normal on-campus learning for the fall 2021 semester; relaxing COVID restrictions spurred increased activity in the labor market accelerated movement towards pre-COVID occupancy levels (**Exhibit 3**).

While high-wage (>\$48,300+ median earnings) and middle-wage groups (>\$30,300; <=\$48,300) have made progress towards economic recovery, low-wage communities (<=\$30,300) continue to face a key setback: COVID-related job loss. [According to Pew Charitable Trusts](#), from 2019-2021, high-wage employees faced -2% in lost jobs, while middle-wage and low-wage groups faced -7% and -24%, respectively (**Exhibit 4**). Philadelphia's labor and housing markets point towards a need for increased access to affordable housing for low-income communities (as middle-wage earners rebuild wealth and may potentially displace low-income communities), as well as job creation. Berks Market strives to provide both job and housing opportunities through our mixed-use property.

#### **Multifamily Submarket Analysis**

**Vacancy:** The Northern Philadelphia submarket saw a material uptick in vacancy rates in the last three years (5.2% as of Dec-2019, 10.2% as of Dec-2021) due to the prolonged impact of the ongoing pandemic. However, vacancy rates have begun to stabilize in the last six months, improving to 9%. Prevailing United States Postal Service address change data points reveal an improvement in absorption from spring through late fall as residents migrate back towards employment hubs. Berkadia analysts expect that absorption rates are likely to see all-time highs in the months ahead.

**Rent:** In accordance with city standards, affordable housing in Philadelphia is 50% (Low Income) to 60% (Moderate Income) of Area Median Income (AMI), and rental rates are set according to bedrooms in the respective unit (**Exhibit 5**).

**Demand:** Research conducted by Pew Charitable Trusts indicates that there is a clear demand and need for affordable housing units in Philadelphia, as evidenced by the low vacancy rates for units priced below \$750 per month (4%) and \$1,200 (6%), while vacancies for units priced above \$1,200 materially increased to above 9%. The pandemic exacerbated existing disparities in housing affordability. The cost-burdened rate of homeowners and renters in Philadelphia is now 46% for BIPOC communities, compared to 40% for non-BIPOC communities. Additionally, housing prices in North Philly have grown 17% in the last year. Further, leasing momentum has rebounded, and absorption rates (15.7% in Q4 2021) have been at all-time highs as vaccines proliferated, surrounding universities returned to on campus learning, and indoor dining resumed (one of Philadelphia's prominent amenities).

**Supply:** Philadelphia suffers from an extreme undersupply of affordable housing units. The most recent census depicts that many rental units considered reasonable for low to moderate-income individuals (LMI) are often occupied by higher-wage earners. A mere 19% of units priced from \$750-\$1,200 per month, appropriately priced for household incomes ranging from \$30K-\$50K per year, are occupied by LMI tenants highlighting a need for increased supply of affordable housing.

#### **Retail Submarket Analysis**

**Overview:** Due to the slackening of the pandemic, demand for small retail centers has increased as business returns. This market analysis identifies our target market (demand for small retail storefronts) and draws on the demand for strip center retail space in the Northern Philadelphia submarket.

**Vacancy:** The vacancy rate of strip center retail also saw an uptick due to the pandemic in 2021, stabilizing at 6.7%. However, that vacancy rate is predicted to decline to 3.8% by 2022, indicating a strong return of demand (**Exhibit 6**).

**Rent:** From publicly available comparable leasing data, our team concluded an average retail rental rate of ~\$25 per sf as of 2021 (**Exhibit 7**). The leasing comp set was composed of recently signed leases Class-A, newly built or remodeled, mixed-use properties within 3 miles of the proposed project.

**Demand:** In Dec-2021, NoMo Foundation received a \$1 million grant from the City of Philadelphia to support the organization's initiatives for youth empowerment and job training and continues to see momentum behind their community-based approach to empowerment. Minority-owned small businesses face structural challenges to growing their businesses, as 42% of minority-owned small businesses reported facing increasing challenges to attaining capital during the COVID-19 pandemic, compared to 29% of all small-businesses, according to a report by McKinsey.

**Supply:** Due to the specificity of our retail model, we see no nearby competitors for the miniature retail storefronts.

## Development Proposal

**Zoning Criteria:** The subject property is zoned CMX-3, described as community commercial and residential mixed-use. CMX-3 zoning requirements are as follows:

- 500% floor area ratio (FAR): 86,825 SF
- Max FAR: 500%; up to an additional 300% with bonuses
- Maximum Occupied Area (Corner): 80%
- Height Restriction: None
- Parking Requirement: Multifamily = 3 spaces per 10 units; Retail = 0 spaces

**Schedule:** To ensure that our proposed design and build-out abide by local zoning and building codes, in Phase 1 (1-2 months) we will request a conceptual plan review from the Philadelphia City Planning Commission (PCPC) and raze the current existing structures. The parcel consists of 17,365 SF, composed of 10,120 SF of vacant land and 7,425 SF of existing retail improvements. Phase 2 (12-13 months) will consist of site evaluation construction of the subject Property. The last phase (4-5 months) will encompass the lease up and stabilization period for the property prior to refinancing the construction loan with permanent debt.

### **Floor 0 (Basement) | Parking Garage**

Our 11,808 sf underground level parking garage will provide 70 private parking spots and storage spaces for retail and/or housing tenants. The garage will also provide access to an on-site bikeshare service.

### **Floor 1 | Retail Space and Lobby**

The first floor will feature 10,037 sf of retail space. Largely modeled off the iconic Reading Terminal Market in Center City, Berks Market's ground floor will offer a bustling "farmer's market" retail environment including one 1,000 sq ft space (\$20 sf/yr) reserved for an anchor tenant (top choice: pharmacy) with a mix of larger and smaller retail spaces to accommodate different business types including food, retail, and personal care services (\$25 sf/yr); specifically, the ground floor will feature four 375 sq ft spaces and fifteen 200 sq ft space, ultimately drawing 20 new businesses/storefronts to the ground floor of Berks Market.

The NoMo Foundation will help our team identify local entrepreneurs to occupy our retail spaces, and the Sustainable Business Network of Greater Philadelphia (SBN) will provide financial/advisory support for local business-owners and entrepreneurs. Additionally, the first floor will feature 1,771 sf of lobby space and an entryway into the housing section of the Berks Market development. Berks Market's ground floor will provide opportunities for the Norris Square community to launch small businesses and build a thriving, local marketplace to stimulate the local economy.

### **Floor 2-6 | Affordable Housing Units**

Floors 2 through 6 will be dedicated to affordable housing units, with two types of offerings: 1) Unit A = 500 sf, Studio unit; and 2) Unit B = 810 sf, 2-Bedroom unit. The housing units are designed to serve many of the entrepreneurs running businesses on Berks Market's ground floor and Norris Square residents. We will collaborate with The NoMo Foundation and The Way Home Project to offer priority support to vulnerable youths in need of urgent housing access. By housing a diverse community at

Berks Market, we are taking a holistic approach to uplifting marginalized communities from Northern Philadelphia.

Berks Market's offering of Studio and 2-Bedroom units caters towards the local community. Almost three quarters of Norris Square residents do not have children and the community's median age is 31 years old; through our unit breakdown, we plan to accommodate young, working households that will shape the cultural footprint of this new, staple development in Northeast Philadelphia.

5,516 sf of the third floor will be dedicated to creating a community space for Berks Market residents. We plan to take a human-centered design approach towards designing the community space and work with incoming residents to assess key needs. Potential community space uses include a computer lab, fitness space, and community kitchen.

### **Floor 7-8 | Market Rate Units**

Floors 7 and 8 feature Unit A and Unit B apartments priced at market rate; of the 159 housing units in the property, 69 will be priced at comparable market rent levels (~50% of all units). [According to HUD](#), mixed income-living is proven to accelerate poverty alleviation by motivating economic desegregation and diversification. By including market rate units in our property, we can combat segregation within Northeast Philadelphia communities while driving greater financial returns (17.0% IRR) comparable to those of multifamily asset developments that do not include 50% affordable housing components.

### **Rooftop | Greenspace**

The 9,724 sf Berks Market Rooftop will consist of greenspaces for Berks Market residents to enjoy, in collaboration with Urban Creators and The Norris Square Neighborhood Project. Within the Norris Square Neighborhood,

## **SWOT Analysis**

<b>Strengths</b> <ul style="list-style-type: none"> <li>• High demand for affordable housing in Norris Square</li> <li>• Centrally located on N. Front Street</li> <li>• 400ft from Berks Station; convenient public transportation reduces carbon emissions and promotes healthy lifestyles</li> <li>• LEED certified building and smart-home technology</li> <li>• Inclusive urban development informed by local community input</li> </ul>	<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Located in Federal Opportunity Zone, access to tax credits</li> <li>• Located in a region with TOD Zoning Ordinance</li> <li>• Empower local entrepreneurs through retail space, particularly in the wake of COVID-19</li> <li>• Partnerships with local nonprofit and enterprise partners to deliver community necessities</li> </ul>
<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• Potential destabilization of regional rental rates caused by new deliveries</li> <li>• Downward pressure on IRR driven by 50% affordable housing tenants; higher levels of default risk</li> <li>• Larger upfront construction costs due to LEED certification and smart-home investments</li> <li>• Minimal precedent of nonprofit/retail/housing partnership in Philadelphia</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• Constrained supply chain due to COVID-19</li> <li>• Rising gas prices potentially increased construction costs</li> <li>• Future elections/turnover of local officials impacting long-term government support for Berks Market</li> <li>• Possible construction delays and budget overruns</li> </ul>

## **Financial Analysis**

Berks Market's development plan includes sf of buildable area, 139 units (studios and 2-bedroom spaces), 7 above-ground stories, and 10,037 SF of ground-floor retail. Berks Market will be financed with a 55% LTC (\$11,479,361) construction loan and an 8% mezzanine loan (\$1,669,72), which will be refinanced through a 65% LTV (\$14,420,552) senior loan. The proposed loan economics were assumed using a conservative approach due to the protracted effects of the ongoing pandemic, risks associated with investing within an Opportunity Zone, and targeting low-to-moderate income tenants.

Using the listed sale price of \$858,500, leasing rates to match comparable market value rents, estimated construction costs and expenses from local developers, and market cap rates, the property produces a 17% equity IRR and a 2.07x equity multiple upon exit. On an unlevered basis the project produces a 12% IRR and a 1.90x equity multiple after a 7-year hold period. Our team chose to extend



the property's holding period to 7 years in order to take advantage of the appreciation of the emerging market. The terminal cap rate (5.0%) and subsequent disposition value was concluded using comparable multifamily market sales (**Exhibit 8**). While the submarket cap rate is at 4.5%, we elected to showcase the most recent trades that are similar to the subject Property; however, our team firmly believes that within the next 7 years, Norris Square will achieve similar rental revenues to the superior locations within Northern Philadelphia. Berks Market investor returns align with select opportunistic product types and provide a compelling story to investors who desire significant returns on projects that also provide a measurable positive impact on the community. **Exhibits 9-12** offer greater insight into our assumptions, calculations, and financial analyses surrounding Berks Market.

## Project Risks & Risk Mitigants

**Construction Risk:** Construction projects, particularly in a constrained supply chain environment, run the risk of defaulting and having to renegotiate terms if the development runs over-time or over-budget and depletes allotted contingency costs.

- ***Risk Mitigant:** To mitigate construction risks, our team extended our development timeline to 24-months to ensure that the project is completed and stabilized according to schedule. Further, conservative measures were used when estimating total uses (i.e., hard/soft costs) and an industry average 5% contingency (equating to ~\$1M) was allotted so that our development teams can respond within budget effectively. Our team plans to partner with local expert real estate developers, Frankel Enterprise, to ensure the project is executed appropriately.*

**Lease Up Risk:** Berks Market carries significant lease up risk because the affordable housing and market rate units, and available retail space may require more time for tenants to take occupancy if the lease up rate is slower than anticipated.

- ***Risk Mitigant:** Our team has established a rapport with a respected and proven local broker, Geis Realty. The brokerage firm has communicated that current retail tenants (i.e., Liberty Food Choice Market) have expressed an interest in our project. Further, net absorption is currently at an all-time high (~15%) and is projected to remain static over the next year.*

**Projected Market Rate Rents:** The success of the project largely depends on Berks Market achieving projected net effective rents upon lease up and stabilization of the property. Given that the construction timeline is planned for 24 months, there is risk that rents could fall prior to construction completion.

- ***Risk Mitigant:** Asking rents have proven relatively stable in North Philadelphia throughout the pandemic and vacancies are stabilizing near 9% after the spike in move-outs that occurred here during summer 2020.*

**Community Push Back (NIMBY: Not in My Backyard):** Existing homeowners may oppose new housing development near their homes—particularly denser or more affordable housing.

- ***Risk Mitigant:** Our team has employed community engagement strategies (strategic partnerships with nonprofits that are held in high regard by local residents), rhetorical devices, and design choices (e.g., ESG conscious, LEED Certification) to overcome opposition.*

## Conclusion

Berks Market provides a unique model for generating retail opportunities for small businesses and critical affordable housing supply in an area that has experienced major economic setbacks throughout the COVID-19 pandemic. Through the development of Berks Market, we are excited to offer an innovative approach towards driving promising financial returns while driving inclusive urban development in North Philadelphia; our projected IRR of 17% is comparable to successful multifamily asset developments, even while our 50% of our property serves low-income residents. Especially given the disproportionately negative impact that COVID-19 has had in Norris Square over the past couple years, we look forward to preserving and elevating the cultural impact of the Norris Square community on Northeast Philadelphia while providing economic/residential opportunities for local community members. We hope that Berks Market can serve as a model for inclusive, environmentally friendly urban development in metropolitan cities experiencing wealthy inequality and segregation issues within its communities.

## Exhibits

**Exhibit 1: Development Proposal Breakdown and Unit Mix Table**

		<b>Nonprofit Partnerships</b>	
<b>Rooftop: Greenspace</b>		9,724 sf	<ul style="list-style-type: none"> <li>• Urban Creators</li> <li>• The Neighborhood Project</li> <li>• Grupos Motivos</li> </ul>
<b>Floor 8: Market-Rate Housing</b>		17 Unit A + 4 Unit B	
<b>Floor 7: Market-Rate Housing</b>		17 Unit A + 4 Unit B	
<b>Floor 6: Affordable Housing</b>		17 Unit A + 4 Unit B	
<b>Floor 5: Affordable Housing</b>		17 Unit A + 4 Unit B	
<b>Floor 4: Affordable Housing</b>		17 Unit A + 4 Unit B	<ul style="list-style-type: none"> <li>• NoMo Foundation</li> <li>• The Way Home Project</li> </ul>
<b>Floor 3: Affordable Housing</b>		5,516 sf (community space) + 11 Unit A + 2 Unit B	
<b>Floor 2: Affordable Housing</b>		17 Unit A + 4 Unit B	
Ground Level	<b>Floor 1: Retail</b>	10,037 sf (retail) + 1,771 sf (lobby)	<ul style="list-style-type: none"> <li>• NoMo Foundation</li> <li>• Sustainable Business Network (SBN)</li> </ul>
	<b>Floor 0: Parking</b>	11,808 sf (70 spaces)	

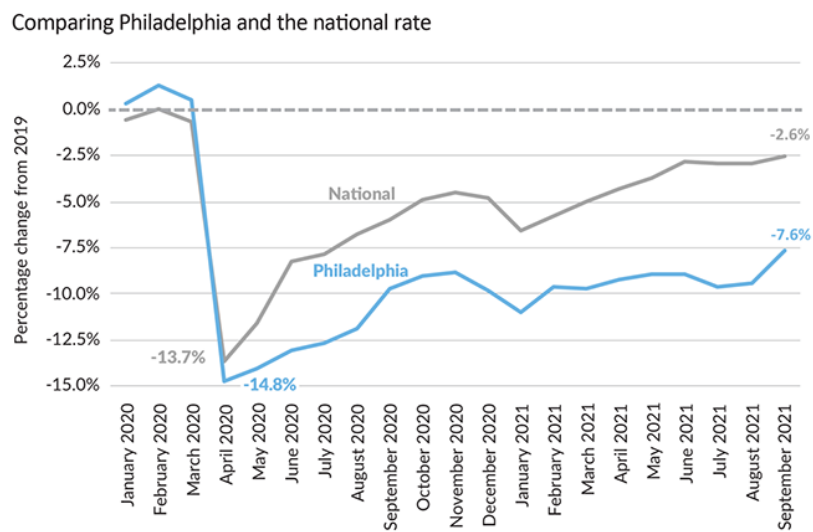
	<b>Unit A: 500 sq ft (Studio Units)</b>	<b>Unit B: 810 sq ft (2-Bedroom Units)</b>	
	113 Total Units (57 Affordable, 56 Market Rate)	26 Total Units (13 Affordable, 13 Market Rate)	
<b>Low Income</b>	<u>Affordable:</u> \$845 <u>Market Rate:</u> \$1,200	<u>Affordable:</u> \$1,086 <u>Market Rate:</u> \$1,550	<b>Levered IRR:</b> ~15.7%
<b>Moderate Income</b>	<u>Affordable:</u> \$1,014 <u>Market Rate:</u> \$1,303	<u>Affordable:</u> \$1,200 <u>Market Rate:</u> \$1,550	<b>Levered IRR:</b> ~17.0%

**Exhibit 2: Maps of Philadelphia**





**Exhibit 3: Lost Jobs in Philadelphia from Q4 2019 to Q3 2021 vs. National Average**



Source: 2022 Pew Charitable Trusts

**Exhibit 4:** Lost Jobs in Philadelphia by Earnings Group from Q2 2019 to Q2 2021

Wage Group	Median Earnings	% Change 2019-2021
High-wage Group	> \$48,300	-2.0%
Middle-wage Group	> \$30,300; ≤ \$48,300	-7.0%
Low-wage Group	≤ \$30,300	-24.2%

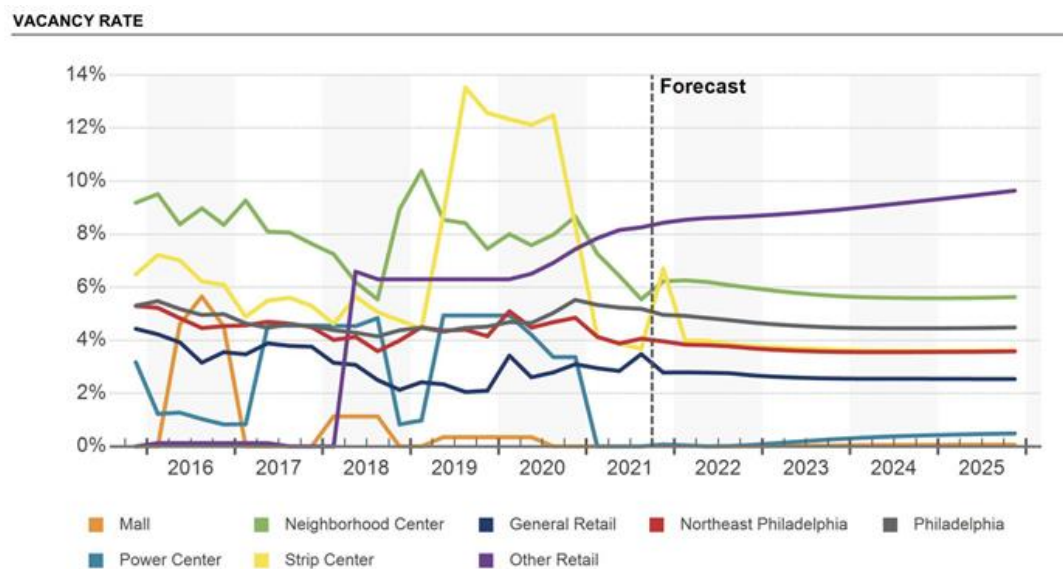
Source: 2022 Pew Charitable Trusts

**Exhibit 5:** Philadelphia Affordable Housing Gross Monthly Rent Limits

Philadelphia Affordable Housing Gross Monthly Rent Limits				
Unit Size	Efficiency/Studio	1 Bedroom	2 Bedroom	3 Bedroom
Low Income (50% AMI)	\$845	\$905	\$1,086	\$1,255
Moderate Income (60% AMI)	\$1,014	\$1,086	\$1,303	\$1,506

Source: CatalystDev

**Exhibit 6:** North Philadelphia Retail Vacancy



Source: CoStar

Note: As of Q4 2021, vacancy rates have increased nearly 200 bps and are expected to climb through Q1 2022.

**Exhibit 7:** Retail Leasing Comp Set

<b>Retail Leasing Comp Set</b>			
<b>Address</b>	<b>Year Built / Remodeled</b>	<b>Rent/SF/YR</b>	<b>Avg Floor Size</b>
<b>2110 E. Norris St</b>	<b>2021</b>	<b>\$25.00</b>	<b>1,200</b>
<b>171 W Berks St</b>	<b>2021</b>	<b>\$30.00</b>	<b>2,200</b>
<b>102-106 W Berks St</b>	<b>2021</b>	<b>\$25.00</b>	<b>1,525</b>
<b>2305-2307 N Front St</b>	<b>1900/2021</b>	<b>\$21.01</b>	<b>857</b>
<b>2000 N 2nd St</b>	<b>2020</b>	<b>\$25.00</b>	<b>1,080</b>
<b>Average</b>	<b>2021</b>	<b>\$25.20</b>	<b>1,372</b>
<b>Berks Market</b>	<b>2022</b>	<b>\$25.00</b>	<b>10,120</b>

Source: CoStar

**Exhibit 8:** Apartment Sales Comp Set

<b>Apartment Sales Comp Set</b>				
<b>Address</b>	<b>Distance</b>	<b>Sale Date</b>	<b>Year Built</b>	<b>Cap Rate</b>
<b>519-521 W Montgomery Ave</b>	<b>0.15 mi</b>	<b>2021</b>	<b>2021</b>	<b>6.5%</b>
<b>2045-49 Trenton Ave</b>	<b>1.02 mi</b>	<b>2021</b>	<b>2021</b>	<b>5.1%</b>
<b>2121-2123 E Dauphin St</b>	<b>2.69 mi</b>	<b>2021</b>	<b>2021</b>	<b>5.9%</b>
<b>Average</b>		<b>2021</b>	<b>2021</b>	<b>5.8%</b>
<b>Berks Market (7 Year Hold)</b>			<b>2022</b>	<b>5.0%</b>

Source: CoStar

**Exhibit 9:** Sources & Uses

**Project Sources**

	<b>\$ Amount</b>	<b>%</b>
Debt	\$13,149,086	55%
Equity:	\$11,647,757	45%
<b>Total Sources:</b>	<b>\$24,796,843</b>	<b>100%</b>

**Project Uses**

	<b>\$ Amount</b>	<b>%</b>
Hard Construction Costs	\$20,004,480	80.7%
Owner HC Contingency	\$500,112	2.0%
Land Purchase Price	\$858,500	3.5%
Land Acquisition Costs	\$8,585	0.0%
Total Soft Costs	\$3,425,166	13.8%
<b>Total Uses:</b>	<b>\$24,796,843</b>	<b>100%</b>

Note: The construction loan was sized to a 55% LTC, allotting \$13.1MM in debt to fund the project.



**Exhibit 10: Soft Cost Budget**

<b>Soft Costs</b>		
Taxes Prior to Closing	0.03%	\$5,001
Architecture, Engineering, Related	6.25%	\$1,250,280
Legal, Closing	1.50%	\$300,000
Municipal Fees	3.50%	\$700,157
Preleasing Expenses	1.88%	\$375,250
FFE	0.60%	\$120,027
Miscellaneous	0.38%	\$76,317
CM Fee	1.00%	\$200,045
Owner SC Contingency	0.90%	\$180,040
Development Fee	0.09%	\$18,004
LEED Certification	1.00%	\$200,045
<b>Total Soft Costs</b>		<b>\$3,425,166</b>
<b>Hard Costs</b>		
Hard Construction Costs		\$20,004,480
Owner HC Contingency		\$500,112
<b>Total Hard Costs</b>		<b>\$20,504,592</b>
<b>Land Costs</b>		
Land Purchase Price		\$858,500
Land Acquisition Costs		\$8,585
<b>Total Land Costs</b>		<b>\$867,085</b>

*Note: Soft Costs were budgeted based off figures garnered from local real estate developers (e.g., CatalystDev)*

**Exhibit 11: Base Case Assumptions**

Property Summary (Net Space)		Rent	Market
Property Name	Berks Market	<b>Commercial Space</b>	<b>Inflation</b> 2.5%
Gross Lot Area	17,365 sq ft	Occupancy 90%	
Maximum Building Lot Area	13,892 sq ft	Retail Rent (psf) \$25.20	<b>Rent Growth</b>
FAR	800 %	Efficiency 85%	Residential Rent Growth 2.5%
Maximum Building Area	111,136 sq ft	<b>Community Space</b>	Retail Rent Growth 2.5%
Allowance for Parking	13,892 sq ft	Dedicated Monthly Rent	<b>Expense Growth</b>
Actual Buildable Area (Excluding Parking)	97,244 sq ft	<b>Residential Space</b>	Residential Expense Growth 2.0%
Final Buildable Area	111,136 sq ft	Low Income (1) vs Mixed Income (2)	Retail Expense Growth 2.0%
Efficiency	80%	Small Unit (Affordable)	
Rooftop (Efficiency Factor Applied)	8,266 sq ft	Large Unit (Affordable)	Insurance Rate (per \$M replacement) \$2,000
Parking	13,892 sq ft	Small Unit (Market Rate)	Leasing and Capital Costs 6.5%
Commercial Retail Space	11,808 sq ft	Large Unit (Market Rate)	Property Tax Rate 0.99%
Small Units	113	Occupancy 95%	
Small Unit	56,500 sq ft	Efficiency 85%	
Large Units	26	<b>Parking</b>	
Large Unit	21,060 sq ft	Parking fee per space/month \$90.00	
Community Space	5,516	Occupancy 85%	
		Parking Spots 30	
		Efficiency 85%	
<b>General</b>		<b>Financing - Construction</b>	
Buildable Site Area	111,136	Total development cost \$20,871,565	
Holding Period (Years)	7	<b>Construction Loan</b>	
Terminal Cap Rate	5.20%	Max LTC 55.0%	
Acquisition Costs (Land Only)	1.0%	Rate (Monthly) 0.58%	
Selling Cost	2.0%	Amortization	Fees & Interest Capitalized
% Soft Costs	13.0%	Fee Capitalized 1.00%	
Hard Costs (PSF)	\$180	Max Draw \$11,479,361	
Contingencies (Development)	5.0%		
Total Development Costs (PSF)	\$180	<b>Mezzanine Loan</b>	
Land Acquisition Cost	\$858,500	LTC 8.0%	
		Rate 11.0%	
<b>Financing - Permanent</b>		Amortization Interest Only	
		Fee (Capitalized) \$8,348.63	
<b>Senior Loan</b>		Total Loan \$1,669,725	
LTV @ Stabilization	65.0%		
Stabilized CAP Valuation	5.0%		
NOI @ Stabilization	\$1,109,273	Total Construction Financing \$13,149,086	
Stabilized Valuation	\$22,185,464	Developer's Equity \$7,722,479	
Rate (Fixed)	5.5%		
Amortization	30		
Fee	\$ 144,206		
Total Loan	\$14,420,552		

**Exhibit 12: 7 Year Proforma Analysis / Unlevered / Levered Cash Flow Analysis**

Unlevered Cash Flows		Development Year 0	Development Year 1	Development Year 2	Lease Up Year 3	Stabilized Year 4	Stabilized Year 5	Stabilized Year 6	Stabilized Year 7
		2021	2022	2023	2024	2025	2026	2027	2028
<b>REVENUES</b>									
Residential Space		-	-	\$49,842	\$1,549,663	\$1,989,870	\$2,039,616	\$2,090,607	\$2,142,872
Occupancy		-	-	2.5%	75.8%	95%	95%	95%	95%
Retail Space				-	125,397	226,143	231,797	237,592	243,532
Occupancy				0%	68%	90%	90%	90%	90%
<b>OTHER INCOME</b>									
Parking		-	-	-	\$29,658	\$30,399	\$31,159	\$31,938	\$32,736
<b>Total Revenues</b>		-	-	\$49,842	\$1,704,717	\$2,246,412	\$2,302,572	\$2,360,137	\$2,419,140
<b>EXPENSES</b>									
Operating Expenses	35.0%	-	-	(\$17,445)	(\$596,651)	(\$786,244)	(\$805,900)	(\$826,048)	(\$846,699)
Residential Space Management Fee	5%	-	-	-	(\$6,270)	(\$11,307)	(\$11,590)	(\$11,880)	(\$12,177)
Green Space Management Fee	\$0.15 psf	-	-	(\$9,928)	(\$9,928)	(\$9,928)	(\$9,928)	(\$9,928)	(\$9,928)
<b>Fixed Expenses</b>									
Real Estate & Property Taxes	0.99%	-	(\$8,499)	(\$8,584)	(\$8,670)	(\$8,757)	(\$8,844)	(\$8,933)	(\$9,022)
Insurance		-	-	(\$41,743)	(\$42,787)	(\$43,856)	(\$44,953)	(\$46,077)	(\$47,229)
NNN Reimbursement	11% (% OE)	-	\$903	\$7,201	\$68,861	\$89,129	\$91,343	\$93,612	\$95,938
<b>Total Expenses</b>		-	(\$7,596)	(\$70,499)	(\$595,444)	(\$770,964)	(\$789,872)	(\$809,252)	(\$829,116)
<b>NOI</b>		-	(\$7,596)	(\$20,657)	\$1,109,273	\$1,475,448	\$1,512,700	\$1,550,884	\$1,590,024
Leasing and Capital Costs		-	-	(\$3,240)	(\$108,879)	(\$144,041)	(\$147,642)	(\$151,333)	(\$155,116)
<b>Recurring Cash Flow Before Debt Service</b>		-	(\$7,596)	(\$23,897)	\$1,000,394	\$1,331,407	\$1,365,058	\$1,399,551	\$1,434,908
<b>Equity Returns (Unlevered)</b>									
Acquisition Costs		(\$867,085)	-	-	-	-	-	-	-
Development Costs		(\$2,342,965)	(\$11,714,823)	(\$4,685,929)	-	-	-	-	-
Disposition Proceeds	5.20%	-	-	-	-	-	-	-	\$31,345,701
Sale Costs		-	-	-	-	-	-	-	(\$626,914)
<b>Unlevered CF</b>		(\$3,210,050)	(\$11,722,419)	(\$4,709,826)	\$1,000,394	\$1,331,407	\$1,365,058	\$1,399,551	\$32,153,696
Unlevered IRR	12.18%								
Equity Multiple	1.90x								
<b>Levered Cash Flows</b>									
		Development Year 0	Development Year 1	Lease-up Year 2	Stabilized Year 3	Stabilized Year 4	Stabilized Year 5	Stabilized Year 6	Stabilized Year 7
		2021	2022	2023	2024	2025	2026	2027	2028
Acquisition Costs	(\$867,085)								
Development Costs	(\$2,342,965)		(\$11,714,823)	(\$4,685,929)	-	-	-	-	-
Recurring Cash Flow Before Debt Service				(\$23,897)	\$1,000,394	\$1,331,407	\$1,365,058	\$1,399,551	\$1,434,908
Disposition Proceeds									\$31,345,701
Sale Costs									(\$626,914)
<b>Total Debt Cash Flow</b>		\$1,669,725	\$1,607,391	\$9,371,858	(\$389,840)	(\$982,540)	(\$982,540)	(\$982,540)	(\$14,498,562)
<b>Levered Equity Cash Flow</b>		(\$1,540,324)	(\$10,107,432)	\$4,662,032	\$610,554	\$348,868	\$382,518	\$417,012	\$17,655,134
Levered IRR	17.0%								
Equity Multiple	2.07x								

*Note: Berks Market will produce a 13.3% Equity IRR and a 2.26x Equity Multiple (on an unlevered basis the IRR and Equity Multiple are 9.39% and 1.70x, respectively).*

## Exhibit 13: Debt Schedule

### Debt Schedule

	Development Year 0 2021	Development Year 1 2022	Development Year 2 2023	Lease Up Year 3 2024	Stabilized Year 4 2025	Stabilized Year 5 2026	Stabilized Year 6 2027	Stabilized Year 7 2028
<b>Construction Loan</b>								
Beginning Construction Loan Balance		-	\$1,635,518	\$11,653,774				
Draw		\$1,607,391	\$9,371,858	-	-	-	-	-
Capatilized Interest & Fees		\$28,127	\$646,397	\$697,929	-	-	-	-
Paydown (-)		-	-	(\$12,351,702)				
<b>Ending Construction Loan Balance</b>		<b>\$1,635,518</b>	<b>\$11,653,774</b>	<b>-</b>				
<b>Mezzanine Loan</b>								
Beginning Mezzanine Loan Balance		\$1,669,725	\$1,855,015	\$2,059,970	-	-	-	-
Capatilized Interest & Fees		\$185,290	\$204,955	\$150,181	-	-	-	-
Paydown (-)		-	-	(\$2,210,151)				
<b>Ending Mezzanine Loan Balance</b>	<b>\$1,669,725</b>	<b>\$1,855,015</b>	<b>\$2,059,970</b>	<b>-</b>				
<b>Total Beginning Development Loans Balance</b>		<b>\$1,669,725</b>	<b>\$3,490,533</b>	<b>\$13,713,743</b>				
Draw		\$1,607,391	\$9,371,858	-				
Capatilized Interest & Fees		\$213,417	\$851,353	\$848,110				
<b>Total Ending Development Loans Balance</b>		<b>\$3,490,533</b>	<b>\$13,713,743</b>	<b>\$14,561,854</b>				
Cash From Permanent Loan To retire Dev Loans		-	-	(\$14,420,552)	-	-	-	-
<b>Senior Loan</b>								
Beginning Senior Loan Balance				\$14,420,552	\$14,372,982	\$14,176,041	\$13,967,991	\$13,748,205
Paydown (-)		-	-	(\$47,570)	(\$196,941)	(\$208,050)	(\$219,786)	(\$232,183)
<b>Ending Senior Loan Balance</b>		<b>-</b>	<b>-</b>	<b>\$14,372,982</b>	<b>\$14,176,041</b>	<b>\$13,967,991</b>	<b>\$13,748,205</b>	<b>\$13,516,022</b>
Interest Expense (Cash)		-	-	\$198,065	\$785,599	\$774,490	\$762,754	\$750,356
Financing Fees (Cash)				\$144,206				
<b>Debt Cash Flows</b>								
Cash Draws		\$1,607,391	\$9,371,858	\$14,420,552	-	-	-	-
Cash Principle Payments		-	-	(\$14,468,122)	(\$196,941)	(\$208,050)	(\$219,786)	(\$13,748,205)
Cash Interest Payments & Financing Fees		-	-	(\$342,271)	(\$785,599)	(\$774,490)	(\$762,754)	(\$750,356)
<b>Net Debt Cash Flow</b>	<b>\$1,669,725</b>	<b>\$1,607,391</b>	<b>\$9,371,858</b>	<b>(\$389,840)</b>	<b>(\$982,540)</b>	<b>(\$982,540)</b>	<b>(\$982,540)</b>	<b>(\$14,498,562)</b>

## Appendix1: Site Photos

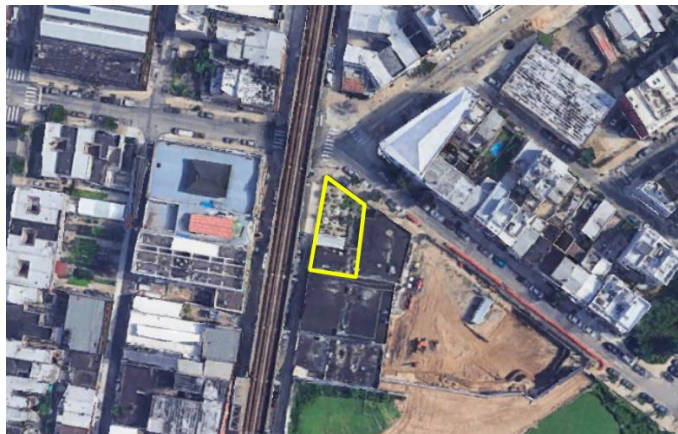
North Front Street view:



East Norris Street view:



Aerial view:





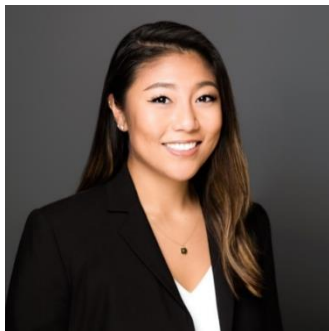
## Appendix 2: Team Page



**Jordan Mays**

*Wharton MBA '23*

- Hometown: Raleigh, North Carolina
- Professional Experience:
  - United States Air Force (2015-2020)
  - Real estate (2021)



**Ellen Paik**

*Wharton MBA '23*

- Hometown: Honolulu, Hawaii
- Professional Experience:
  - Investment banking (2016-2019)
  - Nonprofit management/affordable housing (2019-2021)



**Marques Stevenson**

*Wharton MBA '23*

- Hometown: Detroit, Michigan
- Professional Experience:
  - United States Air Force (2015-2021)
  - Private equity (2021)



**Caroline Li**

*Wharton Undergraduate '24*

- Hometown: Lexington, Massachusetts
- Professional Experience:
  - Economic empowerment (2019)
  - PropTech startup (2021)