The Town Square Initiative

Intended Use
The feasibility study for the Incarnate Word and Blessed Sacrament Convent, better known as the “Old Convent,” was prepared by the Texas Historical Commission’s Town Square Initiative team at the request of Victoria Main Street and the property owner, the Sisters of the Incarnate Word and Blessed Sacrament. This is a preliminary study and is not intended for permitting or regulatory approvals. It should be used as a suggested direction and superseded by recommendations made by licensed design professionals employed by the owner or potential owners of the subject property. No guarantees are implied as to the existing nor proposed conditions and configurations of the parcel and the improvements, the economic viability of the suggested course of action and funding possibilities, nor any explicit nor implied regulatory approvals.

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October 31, 2018
Riley Triggs

Project Partners
Sisters of the Incarnate Word and Blessed Sacrament
Project Background

An application for a feasibility study was submitted by the Victoria Main Street Program on behalf of the property owner, Sisters of the Incarnate Word and Blessed Sacrament (IWBS), in June 2017. The 1904 building long served the Sisters as their headquarters and was a “home away from home” for student boarders for many years.

The Sisters moved to a much larger convent and mother house on Northeast Water Street in 1963. Since then, only a few Sisters have remained at the downtown location. It primarily serves as pre-K and after school care. The rising cost of maintaining the historic property has become too great for the Sisters and they wish for a new owner to take over stewardship of the property. The Sisters believe it is time to entrust “The Old Convent” to a new buyer whose creative vision will bring new life to the historic landmark.

TSI was directed to explore opportunities primarily for private reinvestment with an end use of some combination of office, commercial, lodging, and residential. When asked what they would like to see, the Sisters responded with the following uses:

- Elderly assisted living
- Lofts
- Boutique hotel

They emphasized that the sale price needs to be right, the new use needs to be compatible for the adjacent church and school, and that whatever it becomes needs to be good for downtown.

The Victoria Main Street Program requested the feasibility study as a tool that they could use for discussions with prospects that would provide a realistic framework for redevelopment. Ideally, the community would like to see local developers take on the project. They expressed that if it could be done in phases, or smaller pieces, local developers could possibly accomplish the rehabilitation. Their desire is for a mixed use project incorporating residential, retail, and possibly lodging.

About the Building

Nazareth Academy is the fourth oldest Catholic School in the state of Texas and the oldest educational institution in Victoria. More than a century ago, Father A. Gardet, pastor of Our Lady of Guadalupe Church (now St. Mary’s) recruited the first teachers of Nazareth Academy, the Sisters of the Incarnate Word and Blessed Sacrament. The Order was founded by Jeanne Chezard de Matel in Lyons, France. The Sisters arrived in Brownsville from France in 1853. On Dec 21, 1866, five Sisters arrived in Victoria. Only 17 days later, Nazareth Academy was opened on January 7, 1867.

This structure was completed in 1904. Designed by Victoria architect, Jules Lefland in the Rococo Revival Style, it is his most unusual and creative design. Lefland’s eclectic creation drew from the then popular styles (Spanish and Mission revivals) and perhaps historic references such as the Flemish Guild Halls.

The Convent is the most significant historic building in downtown. It has three stories and approximately 44,000 SF with 15’ ground floor, 12’ second story and 9-1/2’ top floor ceiling heights, a grand entry hall, and all of its original historic features. It was listed on the National Register of Historic Places in 1986.

Located at the southern end of the central business district, it occupies most of a city block sitting on approximately 1.4 acres. The primary facade faces north, with three smaller outbuildings on the southern part of the property.
Land Use Considerations

Site Configuration
The Old Convent has an impressive presence in downtown; unfortunately, the site is quite constrained by the land use of its neighbors. It is surrounded by property owned by St. Mary’s Catholic church (east and south), the newer Nazareth Academy (west) and City Hall, Municipal Court and the Police Station to the north.

The site is also elevated significantly from street level requiring steps and ramps for access. The sidewalks on Church and S. Bridge Streets are approximately three feet above street level.

Existing Parking
At this time, there is minimal off-street parking to serve the building. There are currently approximately 150 spaces on the street that are within a one block walk of the convent. Between St. Mary’s lot and the City Hall complex, there are approximately 140 off-street spaces that could potentially serve as shared parking. The current site offers about 8 off-street spaces. There would be potential to expand, but it would require demolition of several structures, one of which may date to the Convent’s original construction.

Code Requirements
Victoria is not a zoned community which is a rare land use opportunity for the redevelopment of a major building and parcel in a downtown district. However, there are several other development codes in place that may impact the future plans.

Downtown Business District: The Downtown Business District is an overlay that permits pedestrian-oriented signage and eliminates parking requirements in the central area of downtown. The convent lies just outside of this boundary. Therefore, the city’s general parking requirements do apply. (Sec. 5-149/21-92)

Multi-family: Efficiency = 1 space per unit
1 bedroom = 1 space per unit
2 bedroom = 2 spaces per unit + .5 for extra bedrooms

Office: 1 space per 300 SF
Retail: <30,000 sq ft = 1 space/250 SF

Motel/Hotel: 1.1 spaces per motel/hotel + the number of spaces required for ancillary services.

Alcohol Sales: The Victoria City Code prohibits alcohol sales within 300’ of a church, school, public hospital, or child-care facility. (Sec. 14-10) Under current code, alcohol sales would be prohibited.
Community Overview

Victoria is located 30 miles inland from the Gulf of Mexico and is within a two-hour drive of Corpus Christi, Houston, San Antonio and Austin. Known as the South Texas Crossroads, Victoria is a regional hub for a seven county area and serves a retail trade area of over 250,000 people.

The Victoria of today is a modern city, but its history is rich and multi-faceted. Founded in 1824 on the Guadalupe River as Guadalupe Victoria, it was named for the first president of the republic of Mexico by Martín de León. It developed an early importance as a stop on the La Bahía Road as well as a ranching center and shipping point with its strategic river location. Today, as a regional economic and cultural center, Victoria offers a quality of life that parallels major metropolises with a symphony orchestra, a fine arts association, a nationally recognized Bach Festival, numerous historic homes, museums, and libraries, a branch of the University of Houston that complements Victoria College, and the Texas Zoo, designated the National Zoo of Texas in 1984.

Victoria’s downtown still retains a small town atmosphere and benefits from the diversity of industries as well as being the seat of Victoria County. Downtown revitalization efforts are led by Victoria Main Street which has been a designated Texas Main Street city since 2011. The program has worked to ensure downtown contributes to the community’s overall quality of life by providing opportunities for economic growth and entertainment.

Assets and Amenities

The Old Convent is located at the southern edge of the currently designated Downtown Business District, but is in the middle of the recently expanded Main Street program area. It is within a 5-minute walking distance to the commercial core centered on Main Street, the Victoria County Courthouse, De Leon Plaza, City Hall, and the Post Office. It is also a 5-minute walk to several residential neighborhoods surrounding downtown.

The Leo J. Welder Center for Performing Arts, the public library, Nave Museum, Five Points Contemporary Art Museum and Explore Victoria Visitor Center and City Services are all located in the Main Street program area and within easy access of the Convent.

The convent building serves as landmark beyond downtown and has the potential to be an iconic symbol for Victoria in the broader region and state. Victoria is a city that has a relatively low profile to “outsiders,” but offers a wealth of quality of life activities and amenities. This structure has the potential to elevate Victoria’s profile and enhance an already appealing, but understated, downtown setting.

Victoria has a dynamic arts scene appealing to all styles ranging from fine and performance art to artisan crafts and everything in between including the Five Points Contemporary Art Museum (above left), the Victoria Art League (above right) and the Leo J. Welder Center for the Performing Arts (below left). Victoria College is home to the Museum of the Coastal Bend which showcases the rich multi-cultural heritage of Texas’ mid-coastal region.

Outdoor opportunities abound in and around Victoria especially classic Texas hobbies such as kayaking, tubing and bird watching along the Guadalupe River.
Demographics

Victoria is located 30 miles inland from the Gulf of Mexico and is within a two-hour drive of Corpus Christi, Houston, San Antonio and Austin. Known as the South Texas Crossroads, Victoria is a regional hub for a seven county area and serves a retail trade area of over 250,000 people.

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Office Market

According to the commercial real estate listing service LoopNet, the Victoria office market has approximately 134,000 square feet (SF) of estimated space available in five properties with the clear majority (approximately 70,000 SF) in the Plains Capital Bank building at 101 W. Goodwin. Based on the common ratio of 150 square feet per office worker, this would imply the area’s economy will require the creation of approximately 1,500 new office jobs to occupy this public listing of office space.

Based on the area’s business and industrial composition, TSI estimates that there is a total of 1.85 million square feet of occupied office space. Unfortunately, there are no publicly available data estimating the total space within the Victoria market. That said, according to employment to office space square footage estimates, the demand for space has waned by approximately 226,000 square feet at its recent peak.

These data estimates imply that little to no immediate demand for the development of new office space is present in Victoria.

Residential Rental Market

According to the Texas-based apartment research and marketing firm, ALN Apartment Data which was accessed through the Texas A&M Real Estate Center, Victoria’s rental market has improved substantially since the first quarter of 2010. During that period, the occupancy rate rose from 81.4 percent to a recent 93.3 percent, and average rent per square foot advanced from $1.02 to $1.10.

According to the US Census Bureau, there were approximately 3,000 occupied apartments in the Victoria area; whereas in 2016 (latest data available), the bureau estimates about 3,600. Applying these estimates to the occupancy rates provided by ALN yields approximately 4,167 total apartment units in the community.

The fast rate of rebound in both occupancy and rental rates indicate there is easily enough demand to absorb the square footage of new residential space from the rehabilitation of the Convent. However, the project will likely require substantially higher rents than $1.10 per square foot.

Hotel Market

Data provided to the Office of the Governor - Texas Tourism Division, indicates that the number of hotel rooms in the Victoria market fell from 1,954 in 2015 to 1,849 in 2017 with a net decrease in the number of hotels from 27 to 25. At the same time, occupancy rates climbed from 57 percent to 56 percent, and the average daily rate increased to $80.45 per room and an average revenue per room of $45.05. By comparison, the statewide average daily rate was $96.15 per night with an occupancy rate of 64.8 percent.

While the data indicate there is no latent demand for the addition of hotel rooms to the Victoria market, this does not necessarily indicate that a new high-end boutique lodging would not do well in the area, and there is no other similar product within the region to compare it to. What can be said is that the hotel market appeared to be in a state of recovery during 2017 from a 2016 low point as seen in the average daily rate, occupancy rates, and the 16 percent increase in the number of room nights sold. In addition, 2018 data is not yet available, although given the assessment of other data, it would appear the local area is well on its way to rebounding from the last slump in oil prices.
Opportunities

The opportunity for Victoria is to harness the iconic presence of The Old Convent. If done well, redevelopment would preserve the structure, catalyze additional downtown investment, and perhaps most importantly, create a new identity for Victoria that increases its visibility as both a desirable visitor destination and a vibrant, economically stable community offering a high quality of life to its residents. With an economy based largely on serving its trade region, Victoria has a quiet reputation across the State. The Old Convent offers a completely unique asset that has the potential to change the image and identity of this understated South Texas city.

The Town Square team considered two general scenarios. The first scenario proposes redeveloping the Convent as primarily office space while the second option proposes a mix of uses combining hotel, special event space, and residential. The first scenario represents the “easiest” option purely from an architectural and engineering standpoint. The second scenario represents the community’s desire for an active, mixed use project that will serve as a needed social hub and catalyst for downtown.

TSI’s analysis demonstrates that the redevelopment of this historically significant structure requires a construction cost that is impossible to offset with income from the leaseable space without equity investment from philanthropic or grant sources. The Historic Tax Credit programs provide a valuable source of funds, but it is not enough. Redevelopment by the private sector alone is not likely.

The following analysis explains the development assumptions for the two general scenarios. In an effort to find a feasible path forward, the study also examines additional possibilities for end users utilizing the same basic floors plans. These include: the office alternative of the Convent serving as a new City Hall with outdoor public space, and ground floor meeting and special event space as well as two mixed use alternatives: the Convent becomes 1) entirely a boutique hotel or 2) an affordable center for the arts combining residential with working spaces for artists, arts and cultural institutions, and creative businesses.

Historic Tax Credits

The Old Convent was listed on the National Register of Historic Places in 1986 and much of the building remains in original condition. The tax credit programs are essential for redevelopment and could provide between $3.3 and $5.6 million of equity. Texas instituted a 25% state tax credit for eligible historic preservation projects at the beginning of 2015 which was designed to be used in combination with the federal historic tax credit of 20%. The state and federal programs are both administered by the Texas Historical Commission in coordination with the Texas Comptroller of Public Accounts and the National Park Service. Since the implementation of the state program, the use of both has exponentially increased across the state, and they are proving to be the most powerful preservation-based economic incentive available.

Participation in the tax credit program requires a three part application process: first the property in question must be listed or determined eligible for listing in the National Register of Historic Places; then the rehabilitation work that is planned must be reviewed and approved by the THC and the NPS; and finally, once the project is complete, the THC and NPS review it to ensure that the work was completed in accordance with the previous approval. It is important to note that the rehabilitation work must meet the Secretary of the Interior Standards for Rehabilitation in order to receive the available tax incentives. THC staff are available to advise interested parties on the appropriate treatment of historic materials during the initial stages of project planning.

The qualified rehabilitation expenditures for the programs are wide-reaching: walls, floors, ceilings, windows, doors, HVAC, plumbing, elevators, fire suppression and more all qualify as eligible expenses, as do construction interest, architect and engineering fees and reasonable developer fees. Land and building acquisition costs and personal property, such as furniture and appliances, are the primary categories that do not qualify.

The federal credit is designed for income-producing properties and is applied towards the federal income tax. The nuances of this program make it more difficult for a less experienced owner or developer to use; professional consultants will be necessary in order to successfully complete the project and receive the credits. Building owners who are not able to fully utilize the credits personally or who prefer cash during construction instead of a reduction in taxes, may choose to syndicate or transfer the historic project’s credits to an investor. To do this, the building owner forms a limited partnership (LP) or a limited liability corporation (LLC) with a corporate or individual tax credit investor through which the investor becomes (and must remain) one of the building owners for a 5-year period. The investor is then able to claim the federal tax credits generated by the project to defray federal income tax liability. In return, the corporate investor makes an equity investment in the project. The amount of the tax credit equity investment varies depending on the attractiveness of the transaction. Pricing is usually in the range of $8.5–$9.5 cents. In the absence of a state income tax, the state tax credit is applied against a business’ franchise tax liability. These are desirable in Texas and easily transferred. These are currently being transferred for about $9.3 cents on the dollar.

Complete information along with the application forms and instructions are available on the THC’s website at this address: http://www.thc.texas.gov/preserve/projects-and-programs/pres ervation-tax-incentives/texas-historic-preservation-tax-credit

Constraints

While the building is in excellent original condition, there are some considerable challenges.

1. Structure size vs. leasable space

The Convent, at 44,000 sf, appears as an immense structure anchoring the southern end of downtown. However, the revenue-generating space amounts to less than 50% at an estimated 18,748 sf. This total includes only the square footage that would be leasable on a monthly basis. Ground floor common spaces that could generate special event income are not included.

2. Original construction methods

The building has minimal plumbing. Any use that requires the installation of plumbing for individual units, like apartments, will be invasive and costly. In addition, the building has no air conditioning. The study assumes a complete retrofit of mechanical, electrical and plumbing systems. The construction costs are estimates representing the “worst-case scenario.”

3. Parking

Beyond the building itself, the site offers the potential for very little parking. It will be necessary to negotiate for needed off-street spaces for any type of use. The other option would be to expand the Business District Boundary in order to eliminate parking requirements and assist a future development team in securing shared parking facilities for an adequate number of spaces desired for tenants.

4. Compatibility of adjacent uses

Finally, the adjacent uses of church and school limit the ability for on-site alcohol sales—generally considered necessary in a business model for hotel or restaurant uses. These, coincidentally, are the uses most desired by the community. This is a local ordinance optioned into by communities. It is not a TABC requirement. Victoria may need to consider a variance option.
Feasibility Analysis: Scenario 1

Office

- Commercial rents are set at $1.50/ sf/m.
- The project will utilize the historic tax credit programs and work will be completed according to the Secretary of the Interior Standards for Rehabilitation.

Analysis

The scale of the rehabilitation is quite large. At $150/sf, the total project costs are estimated at $10.79 million. Median price of comparable new construction from RS Means is $119/sf for office buildings. Fees are modestly estimated at three percent for engineering and architectural work. Acquisition costs are included in the total project cost at $2,500,000.

The premium $1.50/sf per month ($18/sf/ yr) lease rate can be adjusted up or down slightly, but there is some evidence of Class A office space being offered between $55/ sf and $18/sf annually currently in Victoria, albeit on a much smaller scale. In this scenario, Floor 2 (7334/sf) would lease for $11,000 and Floor 3 (7702/sf) would lease for $11,554 per month.

The historic tax credit equity is significant. Utilizing a transfer rate of 93 cents for the state credit and 88 cents for the federal credit, total equity is estimated at more than $3.73 million. However, to cash flow the debt service, an additional $5 million in an equity investment is necessary.

Currently the scenario includes a construction loan financing about 21% of the project costs based on Net Operating Income of $229,852. This could transition to permanent financing in year three based on the building’s new value of $3,508,757 (7% CAP rate). This is clearly far less than the original investment and illustrates the reality that there is no possible way for the office scenario to generate enough income to make it an attractive project for the private sector. Variables that could have a major impact on the project’s feasibility include the sale price and the construction costs.

Alternatives

City Hall Considerations

Because of its unique historical character and impressive presence, the Convent is very suited for civic and community centric uses.

For instance, it could become an iconic public building housing offices for city hall and its partners such as the EDC, Explore Victoria and Main Street. The building could then additionally function as a convention and visitors bureau with the first floor serving as meeting and special event space offering a steady revenue stream.

The existing floor plan and room configuration lends itself conveniently to the programmatic requirements of city hall and would be a very straightforward rehabilitation that would be an excellent option for the building.

The existing police and city hall offices could then be expansion space for museums or other cultural centers, providing desired downtown space and adding additional community value to this alternative scenario. A civic or community use would then prompt improvements to W. Church St. to create a useful and welcoming streetscape for the community.

The city would need to consider expanding the Downtown Business District Boundary to remove the coded parking requirements and simultaneously pursue a shared parking agreement with St. Mary’s to provide adequate weekday and event parking. Parking patterns are likely to be compatible for these uses.

This first scenario is generally more feasible because construction costs are less with office use. Plumbing and fixtures are reduced and the existing floor plan works quite well for an office arrangement. However, the market analysis shows very little demand for office space. This may require specialized recruitment of a major anchor tenant such as a corporate headquarters or a university program.

Assumptions

- Building square footage: 44,000
- Leasable square footage: 18,748 (this total includes only space that is assumed to lease monthly)
- Ground floor is proposed to house Main Street, the Chamber, Explore Victoria, and the EDC, along with meeting and event space that is assumed to generate a small amount of income.
- The two upper floors are private office space.
- Required parking under existing codes is high (63) and this scenario assumes a reduction in off-street spaces via a shared parking agreement.
- Construction costs are estimated at $150/sf.

### Sources of Funds

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### Income

| Floor 1: 3712 sf leasable Monthly Office | $5,568.00                   |
| Floor 2: 7334 sf leasable Monthly Office | $11,000.00                  |
| Floor 3: 7702 sf leasable Monthly Office | $11,554.00                  |
| Monthly Event Rental                      | $1,444.00                   |
| Total Monthly Income                      | $29,566.00                  |

| Annual Estimated Net Operating Income (accounts for 10% vacancy and 20% in operating expenses) | $229,852.00 |
Feasibility Analysis: Scenario 1

Office Floor Plans

- Public Space
- Meeting
- Mechanical
- Support
- Restroom
- Office

DRAFT
Feasibility Analysis: Scenario 1
Office Floor Plans
Feasibility Analysis: Scenario 1
Office Floor Plans
Feasibility Analysis: Scenario 1 Alternative

City Hall Floor Plans
Feasibility Analysis: Scenario 1 Alternative
City Hall Floor Plans
Feasibility Analysis: Scenario 1 Alternative

City Hall Floor Plans
In Scenario 2, the Convent would be re-developed into the uses identified by stakeholders as the most desirable for downtown including hotel rooms and residential lofts. The ground floor would offer event space and some office.

Hotels typically offer amenities such as a bar and restaurant. Alcohol sales are prohibited by current city code on this site because of its proximity to religious and educational uses. This proposal incorporates live/ work residences for artists, and also museums or cultural organizations, provide expansion space for one of the arts centers in Victoria. There are non-profit developers that specialize in pairing the Historic Tax Credit programs with the Low Income Housing Tax Credit program to create affordable centers for the arts in historic buildings. These projects can provide live/work residences, gallery space, studios, and offices for arts organizations and spaces for creative businesses. Victoria has a strong arts community and could potentially provide the necessary public support to attract this type of developer.

### Alternatives

The major challenge with this project is that the feasible space does not generate enough income to offset the high cost of rehabilitation as well as building acquisition. There are several alternatives that could potentially offer either more equity, more revenue, or both.

#### Hotel Considerations

When people see this building, they immediately imagine its future as a boutique hotel. It is also well-suited for this use, especially the public space design and the courtyard. The income generated from the hotel rooms at a conservative occupancy rate is by far the highest per floor compared to any of the other uses examined in this study. Event revenue is also very conservative in the example proforma; however, if operating exclusively as lodging, this has the potential to be much higher.

A boutique hotel may be feasible, but it would require certain circumstances to align.

- The Sisters would need to consider a lease arrangement, which would eliminate the acquisition cost from the equation.
- The community would need to determine whether alcohol sales in a lounge/restaurant setting would be acceptable given the proximity to the religious and educational uses.
- A developer/operator who specializes in historic hotel redevelopment would need to be recruited.
- Shared parking would be an absolute necessity.

#### Arts Center with Residences

There are non-profit developers that specialize in pairing the Historic Tax Credit programs with the Low Income Housing Tax Credit program to create affordable centers for the arts in historic buildings. These projects can provide live/work residences, gallery space, studios, and offices for arts organizations and spaces for creative businesses. Victoria has a strong arts community and could potentially provide the necessary public support to attract this type of developer.

The addition of the Low Income Housing Tax Credits could add an estimated $1.9 million, at a minimum, in equity. Again, an arrangement would need to be considered where the Sisters retain ownership, but lease to an developer/operator. Under these circumstances, the financial gap is reduced to an amount that could potentially be raised through philanthropy. The Center could provide expansion space for one of the museums or cultural organizations, provide live/work residences for artists, and also include gallery, office and meeting/special event space as a true community center for the arts.

### Assumptions

- Building square footage: 44,000
- Leasable square footage: 18,748 (this total includes only space that is assumed to lease monthly.)
- Ground floor is proposed to house meeting and event space. It is expected that the hotel operator would manage bookings.
- The second floor has 12 hotel rooms.
- The third floor features loft apartments ranging in size from 380 sf efficiencies to 1400 sf three bedroom units.
- Required parking for the hotel and residential units totals 31. This may be possible on site, but that would not accommodate any parking for the meeting and event space.
- Construction costs are estimated at $250/sf.
- Residential rents are set at $1.20/sf/m. Average lease rate in the Victoria market is $1.10.
- Hotel rooms lease for an avg. daily rate of $110 and the model uses 50% occupancy.
- The project will utilize the historic tax credit programs and work will be completed according to the Secretary of the Interior Standards for Rehabilitation.

### Analysis

The scale of the rehabilitation is very large. At $250/sf, the total project costs are estimated at $16.24 million. Median price of comparable new construction from RS Means is $148/sf for the apartments. Fees are modestly estimated at three percent for engineering and architectural work. Acquisition costs are included in the total project cost at $2,500,000.

In this scenario, floor 2 (7334 sf) would lease for $11,000 and floor 3 (7702/sf) would lease for $11,554 per month.

The historic tax credit equity is significant. Utilizing a transfer rate of 93 cents for the state credit and 88 cents for the federal credit, total equity is estimated at more than $5.584 million. However, to cash flow the debt service at a standard ratio of 1.25, an additional $7.3 million in an equity investment is necessary.

While this is the desired use for downtown, the construction cost of a complete retrofit, the acquisition cost, and the limited amount of income make this scenario unlikely as outlined. Some of the existing constraints will have to be addressed in order to develop a feasible plan.
Feasibility Analysis: Scenario 2
Mixed Use Floor Plans
Feasibility Analysis: Scenario 2

Mixed Use Floor Plans

Feasibility Study
Victoria, TX
Feasibility Analysis: Scenario 2
Mixed Use Floor Plans