



KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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Redevelopment
Affordable Housing
Economic Development

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To: Bruce Moe, Finance Director
City of Manhattan Beach

From: Kathleen Head
Tim Bretz

Date: January 5, 2016

Subject: Parkview Avenue Site: Senior Citizen Apartment Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a conceptual financial analysis for the prospective development of senior citizen apartments on an approximately three-acre portion of a property that is located at the southeast corner of Parkview Avenue and Village Drive (Site). The property is owned by the City of Manhattan Beach (City).

The Site is currently improved with a surface parking lot that is subject to an easement for a road that provides access to an adjacent senior citizen housing project. The purpose of the KMA analysis is to provide the City with an order-of-magnitude estimate of the land value supported by a new senior citizen apartment complex.

BACKGROUND STATEMENT

KMA previously provided conceptual financial analyses for three potential development uses for the Site: a hotel project, a market rate apartment project without age restrictions, and an office project. KMA presented the results of these financial analyses to the City Council on December 1, 2015. The City Council requested that City staff analyze an additional scenario that assumed the development of age-restricted senior citizen apartment units on the Site (Senior Project). The following memorandum describes this analysis.

As was assumed in the three development scenarios that KMA previously evaluated, the Site is encumbered by a requirement to provide 234 parking spaces to the Manhattan Village Mall and Manhattan Beach Country Club. In addition, a road easement bisects the Site, which must be taken into account when evaluating development opportunities.

SUPPORTABLE LAND VALUE ANALYSIS

Scope of Development

The scope of development applied to the Senior Project can be described as follows:

1. KMA set the Senior Project size at 150 units. Based on the characteristics of the adjacent senior citizen housing project, KMA assumed that all the units would include one bedroom. KMA set the average unit size at 650 square feet.
2. A 15% allowance was provided for circulation and common area. This brings the gross building area (GBA) to 115,000 square feet.
3. The KMA analysis is based on the following parking requirements:
 - a. 0.5 parking spaces per unit;
 - b. 1.0 guest parking space per five units;
 - c. 10 employee parking spaces; and
 - d. The requirement to provide 234 replacement parking spaces.
4. The Senior Project includes a total of 349 parking spaces to be provided in a surface parking lot and one level parking deck.
5. KMA surveyed the rents being achieved at the adjacent senior citizen apartment project. To estimate the achievable rent at the Senior Project being analyzed, KMA increased these rents by 15% to reflect the premium associated with new construction.
6. KMA estimates the operating expenses at \$6,375 per unit per year, which consists of the following:
 - a. General operating expenses estimated at \$4,125 per unit per year; and
 - b. Property taxes estimated at \$2,250 per unit per year.

Estimated Supportable Land Value

Assuming that the Senior Project is required to provide 234 replacement parking spaces, KMA estimates that the Senior Project generates a negative land value in the range of \$5.82 million. This implicitly means that the land would need to be contributed to the Senior Project at no cost, and that financial assistance in the range of \$582,000 per year would need to be provided to make the Senior Project financially feasible.

Estimated Annual City Tax Revenues

The property tax revenue that could be generated by the Senior Project is estimated at \$50,700 per year.

Estimated Net Annual City Cost

The Senior Project's estimated net annual City cost is estimated as follows:

Base Annual Ground Lease Payment	(\$582,000)	
Property Tax Revenue	50,700	
Net Annual City Cost		(\$531,300)

CONCLUSIONS

The following summarizes the results of the KMA analysis:

1. The Senior Project generates a negative \$5.82 million land value. As such, the Senior Project is not considered feasible unless public financial assistance is provided.
2. The Senior Project is estimated to generate \$50,700 in property tax revenue per year for the City.
3. The net annual City cost is estimated at \$531,300 per year.

SENIOR CITIZEN APARTMENT SCENARIO
150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

TABLE 1

ESTIMATED CONSTRUCTION COSTS

SENIOR CITIZEN APARTMENT SCENARIO: TYPE V CONSTRUCTION

150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

I. Direct Costs					
	¹				
Site Improvement Costs		130,680	Sf Land	\$10.00 /Sf Land	\$1,307,000
Parking Costs					
Surface Parking	²	174	Spaces	\$3,500 /Space	609,000
Parking Deck		175	Spaces	\$15,000 /Space	2,625,000
Building Costs		115,000	Sf Apt GBA	\$125 /Sf Apt GBA	14,375,000
Apartment FF&E Costs		150	Units	\$2,000 /Unit	300,000
Contractor Fees/General Requirements		14.0%	Construction Costs		2,055,000
Builder's Risk Insurance		2.0%	Construction Costs		294,000
Contingency Allowance		5.0%	Other Direct Costs		851,000
Total Direct Costs		115,000	Sf GBA	\$195 /Sf GBA	\$22,416,000
II. Indirect Costs					
Architecture, Engineering & Consulting		6.0%	Direct Costs		\$1,345,000
Public Permits & Fees/Impact Fees		150	Units	\$17,100 /Unit	2,565,000
Taxes, Insurance, Legal & Accounting		3.0%	Direct Costs		672,000
Marketing & Leasing Costs		2.0%	Direct Costs		448,000
Development Management		4.0%	Direct Costs		897,000
Contingency Allowance		5.0%	Other Indirect Costs		296,000
Total Indirect Costs					\$6,223,000
III. Financing Costs					
Construction Loan Interest	³	\$32,446,000	Financed	5.50% Interest	\$2,498,000
Financing Fees					
Construction Loan		\$32,446,000	Financed	2.50 Points	811,000
Permanent Loan	⁴	\$19,903,000	Financed	2.50 Points	498,000
Total Financing Costs					\$3,807,000
IV. Total Construction Costs		115,000	Sf GBA	\$282 /Sf GBA	\$32,446,000

¹ Direct costs assume prevailing wage requirements will not be imposed on the Project. KMA assumes TYPE V construction standards for the SENIOR CITIZEN APARTMENT SCENARIO.

² Apartment parking totals 115 spaces, which equates to a parking ratio of 0.50 spaces per apartment unit, 1.00 guest space for every five units, and 10.00 employee parking spaces.

³ Assumes an 18-month construction period with a 60% average outstanding balance, and a 6-month absorption period with a 100% average outstanding balance.

⁴ Assumes a 5.00% capitalization rate and a 65% loan-to-value ratio.

TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 SENIOR CITIZEN APARTMENT SCENARIO: TYPE V CONSTRUCTION
 150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES
 PARKVIEW AVENUE SITE
 MANHATTAN BEACH, CALIFORNIA

I.	<u>Apartment Income</u>	¹			
	Manager's Unit (One-Bdrm)		1 Unit	\$0 /Unit/Month	\$0
	One-Bedroom Units		149 Units	\$1,455 /Unit/Month	2,601,000
	Laundry & Miscellaneous Income		150 Units	\$10 /Unit/Month	18,000
	Gross Apartment Income				\$2,619,000
	(Less) Vacancy & Collection Allowance		5% Gross Apartment Income		(131,000)
	Effective Gross Income				\$2,488,000
II.	<u>Apartment Operating Expenses</u>				
	General Operating Expenses		150 Units	\$4,125 /Unit	\$619,000
	Property Taxes	²	150 Units	\$2,250 /Unit	338,000
	Total Apartment Operating Expenses				\$957,000
III.	Net Operating Income				\$1,531,000

¹ Equates to an average market rent of \$2.24 per square foot per month.

² Based on a 5.00% capitalization rate.

TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
 SENIOR CITIZEN APARTMENT SCENARIO: TYPE V CONSTRUCTION
 150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES
 PARKVIEW AVENUE SITE
 MANHATTAN BEACH, CALIFORNIA

I. <u>Estimated Supportable Private Investment</u>				
Net Operating Income		(See TABLE 2)	\$1,531,000	
Threshold Stabilized Return	1		5.75%	
Supportable Private Investment				\$26,626,000
II. <u>Supportable Land Value</u>				
Supportable Private Investment				\$26,626,000
(Less) Total Construction Costs		(See TABLE 1)		(32,446,000)
III. Supportable Land Value				
	130,680	Sf Land	(\$45) /Sf Land	(\$5,820,000)
IV. <u>Supportable Ground Lease Payment @ 10% of Land Value</u>				(\$582,000)

¹ Based on a 5.00% capitalization rate drawn from Situs RERC estimates for the 2nd Quarter 2015 for the Los Angeles Region, plus a 0.75% margin.