



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

MEMORANDUM

ADVISORS IN:
Real Estate
Redevelopment
Affordable Housing
Economic Development

To: Bruce Moe, Finance Director
City of Manhattan Beach

From: Kathleen Head
Tim Bretz

Date: November 24, 2015

Subject: Parkview Avenue Site: Evaluation of Development Scenarios

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

The three-acre "Development 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 order-of-magnitude estimates of the value supported by the Development Site under three different conceptual development scenarios.

BACKGROUND STATEMENT

The City wishes to obtain a comparative analysis of the development of hotel, office, retail/restaurant and apartment uses. It is anticipated that the Development Site would be conveyed to a developer in the form of a long-term ground lease. The Development Site is encumbered by a requirement to provide 234 parking spaces to the Manhattan Village Mall and the Manhattan Beach Country Club. In addition, the road easement bisects the Development Site, which must be taken into account when evaluating development opportunities.

After a review of the market conditions, and the Development Site's physical characteristics, KMA eliminated retail and restaurant development from further consideration for the following reasons:

1. The Development Site is not located on major traffic generating street, nor does it have visibility from a major street.
2. The Development Site's configuration is not conducive to traditional retail development.
3. In this location, the financial feasibility of retail and restaurant development would be dependent on the use of surface parking. This is not possible on the Development Site given the requirement to fulfill the existing replacement parking obligations.

Based on the Development Site's market and economic characteristics, KMA limited the development scopes to four-story construction with adjacent above-ground parking. For analysis purposes, KMA analyzed the following three development scopes:

1. A 150-room high-quality lifestyle hotel, as defined by PKF Consulting USA (PKF) in a report dated November 9, 2015;
2. A 160,000 square foot office complex; and
3. A 150-unit apartment project.

As a baseline, KMA analyzed the three land uses based on the parking required by the City's parking code. KMA then analyzed each land use including the 234 required replacement parking spaces. Based on this analysis, KMA estimated the ground lease payments that could be supported by the development and the replacement parking spaces. In addition, KMA estimated the property tax and transient occupancy tax (TOT) revenue that could potentially be generated by each development scope.

It is important to understand that the alternative development scopes are strictly conceptual in nature. Therefore, this analysis should only be used to provide an understanding of the relative financial characteristics of the scenarios being tested.

EXECUTIVE SUMMARY

The PKF analysis concluded that market support exists for a 150-room high-quality lifestyle hotel. The KMA market analysis identified market support for office and apartment uses. KMA then created development scenarios based on the assumption that construction would be limited to four stories and that parking would be provided above ground.

Estimated Total Annual City Revenues

As shown in Summary Table 1, the land values supported by the three scenarios, assuming that no replacement parking requirements are applied, are estimated as follows:

1. The Hotel Scenario generates an estimated value of \$5.95 million, or \$46 per square foot of land area.
2. The Office Scenarios supports an estimated land value of \$4.15 million, or \$32 per square foot of land area.
3. The Apartment Scenario has an estimated land value of \$7.03 million, or \$54 per square foot of land area.

Summary Table 2 presents the results of the analyses based on the assumption that 234 replacement parking spaces are provided in addition to the spaces required by the City's parking code. The results of these analyses are as follows:

Hotel Development Scenario

1. The supportable land value is estimated at \$1.31 million. This equates to a base ground lease payment of \$130,700 per year.
2. The property tax revenue that would be received by the City is estimated at \$71,700 per year.
3. The TOT revenue projected for the first stabilized year is \$963,600.

Based on the preceding assumptions, the total City revenues are estimated at \$1.17 million per year.

Office Development Scenario

1. The requirement to provide 234 replacement parking spaces reduces the supportable land value from \$4.15 million to a negative dollar amount. The KMA analysis indicates that the Office Scenario would require an annual assistance contribution of \$177,500 per year to achieve financial feasibility.
2. The property tax revenue that would be received by the City is estimated at \$82,600 per year.

The estimated property tax revenue is insufficient to cover the impact of the net negative land value generated by the Office Scenario. Thus, it is the KMA conclusion that the Office Scenario is not financially feasible.

Apartment Scenario

1. The supportable land value is estimated at \$1.0 million, which generates a \$100,000 per year ground lease payment.
2. The property tax revenue is estimated at \$100,800 per year.

The total City revenues are estimated at \$200,800 per year.

Conclusions/Recommendations

It is the KMA conclusion that the Hotel Scenario generates the highest annual ground lease revenue of the three scenarios. In addition, due to the TOT generation, the annual City revenues are dramatically higher than the other two scenarios.

KMA recommends that the City continue exploring the opportunity to attract hotel development to the Development Site. The next step in the process would be to issue a Request for Qualifications (RFQ) to potential hotel developers, followed by a Request for Proposals (RFP) to a shortlist of qualified respondents to the RFQ.

MARKET AREA REVIEW

The KMA analysis of the Hotel Scenario is based on the results of the PKF study. KMA undertook market area research for office and apartment uses. The results can be summarized as follows:

1. Office
 - a. Per CBRE, in the 3rd Quarter of 2015, the average South Bay office lease rate was \$2.32 per square foot per month on a full-service gross basis.
 - b. Class A office lease rates in the vicinity of the Development Site currently range from \$2.90 to \$3.75 per square foot per month. The weighted average lease rate for Class A office space is \$3.25 per square foot per month on a full-service gross basis.
 - c. According to CBRE, the South Bay office market had an overall 19.3% vacancy rate, which was the highest vacancy rate for the all of the Los Angeles submarkets

- d. Approximately 96,000 square feet of office space was under construction in the 3rd Quarter of 2015.
2. Apartments
- a. The weighted average apartments rents within the vicinity of the Development Site are as follows:
 - i. \$3.98 per square foot per month for studio units;
 - ii. \$3.04 per square foot per month for one-bedroom units;
 - iii. \$2.59 per square foot per month for two bedroom units; and
 - iv. There were not enough rent comparables for three-bedroom units to determine a weighted average.
 - b. Per Marcus & Millichap, rents increased by approximately 4.5% between 2013 and 2014. Rents are projected to increased by approximately 5% between 2014 and 2015.
 - c. According to Marcus & Millichap, the apartment vacancy rate for the Los Angeles market is approximately 3%.

BASIC ASSUMPTIONS

The following assumptions are applied throughout the analysis of the three development scenarios:

- 1. The Development Site is set at three acres.
- 2. Parking:
 - a. Each scenario is required to fulfill the City's parking code standards for the use.
 - b. A 234 space replacement parking requirement is applied.
- 3. The annual ground lease payment is set at 10% of the estimated supportable land value.
- 4. City Revenues:

- a. The property tax rate is set at 1%. The City receives 15% of the property tax levy.
- b. The TOT revenue is set at 10% of hotel room sales.

PRO FORMA ANALYSES

To provide the City with context in selecting a use for the Development Site, KMA prepared conceptual pro forma analyses for three development scenarios. To obtain baseline land value estimates, KMA prepared pro forma analyses based on the assumption that no replacement parking requirements would be applied. These analyses are presented in Attachment I, which follows this memorandum.

To evaluate the ground lease payments that could potentially achieved by the City, KMA prepared conceptual pro forma analyses based on the assumption that 234 replacement parking spaces would need to be provided under each development scenario. In addition, KMA estimated the property tax and TOT revenue that could potentially be received by the City under each scenario. This analysis is presented in Attachment II.

The pro forma analyses in Attachments I and II are organized as follows:

- | | |
|----------|---|
| Table 1: | Estimated Construction Costs |
| Table 2: | Estimated Stabilized Net Operating Income |
| Table 3: | Estimated Supportable Land Value |

Hotel Scenario

Scope of Development

KMA utilized the information provided in the November 9, 2015 PKF report to create the scope of development that serves as the basis for the Hotel Scenario:

1. The hotel includes 150 guest rooms, with an average room size of 394 square feet.
2. The hotel includes 5,000 square feet of restaurant/bar space, and 7,500 square feet of meeting space.

3. KMA assumes that hotel development is required to provide 1.1 parking spaces per hotel room. This results in a 165 parking space requirement, which KMA assumes can be provided in a surface parking lot.

Estimated Supportable Land Value

Based on the KMA construction cost estimate, and the net operating income provided by PKF, KMA estimates that the Hotel Scenario can support a \$5.95 million land value. This equates to \$46 per square foot of land area.

The KMA analysis assumes that the provision of 234 replacement parking spaces will require the construction of a one-level parking deck above a surface parking level. The provision of these spaces is estimated to reduce the supportable land value to \$1.31 million. The resulting base ground lease payment is estimated at \$130,700 per year.

Estimated Annual City Tax Revenues

The property tax revenue is estimated at \$71,700 and the TOT revenue is estimated at \$963,600. The total City Tax Revenue is estimated at \$1.03 million per year.

Estimated Total Annual City Revenue

The total annual City revenue under the Hotel Scenario is estimated as follows:

Base Annual Ground Lease Payment	\$130,700
City Share of Property Tax Revenue	71,700
TOT Revenue	963,600
<hr/>	
Total Annual City Revenue	\$1,166,000

Office Scenario

Scope of Development

The scope of development for the Office Scenario can be described as follows:

1. KMA set the gross building area (GBA) at 160,000 square feet. Assuming a 20% circulation factor, the gross leasable area totals 128,000 square feet.
2. KMA assumes that office development is required to provide 3.33 parking spaces per 1,000 square feet of GBA. This results in a 533 space requirement, which KMA assumes will be constructed in an above-grade parking structure.

Estimated Supportable Land Value

KMA estimates that the Office Scenario can support a \$4.15 million land value, which equates to \$32 per square foot of land area.

The provision of 234 replacement parking spaces increases the required parking count to 767 spaces. The total cost to provide these replacement spaces is estimated at \$5.93 million, which leaves this scenario with a \$1.78 million financial gap. This implicitly means that the land would need to be contributed to the Office Scenario at no cost, and that financial assistance in the range of \$177,500 per year would need to be provided to make the Office Scenario financially feasible.

Estimated Annual City Tax Revenues

The property tax revenue that could be generated by the Office Scenario is estimated at \$82,600 per year.

Estimated Net Annual City Cost

The estimated net annual City cost under the Office Scenario is estimated as follows:

Base Annual Ground Lease Payment	(\$177,500)	
Property Tax Revenue	82,600	
Net Annual City Cost		(\$94,900)

As can be seen in the preceding table, the Office Scenario is projected to generate net annual costs to the City. As such, it is KMA's conclusion that the Office Scenario is not financially feasible.

Apartment Scenario

Scope of Development

The scope of development for the Apartment Scenario is summarized as follows:

1. KMA set the apartment development size at 150 units. The unit mix applied in the KMA analysis is presented in the following table:

	Number of Units	Unit Size (SF)
Studio Units	15	450
One-Bedroom Units	60	700
Two-Bedroom Units	60	1,100
Three-Bedroom Units	15	1,200
Total / Average	150	885

2. The Apartment Scenario includes 133,000 square feet of GBA.
3. KMA assumes that apartment development is required to provide 2.0 parking spaces per unit plus 0.25 guest parking spaces per unit. This results in a requirement for 338 parking spaces, which are provided in an above-ground parking structure.

Supportable Land Value

KMA estimates that the Apartment Scenario can support a \$7.03 million land value. This which equates to \$54 per square foot of land area.

The provision of 234 replacement parking spaces acts to reduce the estimated supportable land value to \$1.0 million. This equates to a ground lease payment of \$100,000 per year.

Estimated Annual City Tax Revenues

The property tax revenue that could be generated by the Apartment Scenario is estimated at \$100,800 per year.

Estimated Total Annual City Revenue

The total annual City revenue under the Apartment Scenario is estimated as follows:

Base Annual Ground Lease Payment	\$100,000	
Property Tax Revenue	100,800	
Total Annual City Revenue		\$200,800

CONCLUSIONS

The following summarizes the results of the KMA analysis:

1. Based on the KMA market research, it is our conclusion that a retail and restaurant project is not an economically viable use for the Development Site.
2. The Office Scenario generates a negative land value that cannot be fully recouped from the City tax revenue projected to be generated. Thus, it is the KMA conclusion that the Office Scenario is not financially feasible.
3. The Apartment Scenario is projected to support a ground lease payment of \$100,000 per year. When the projected \$100,800 in property tax revenue is included, the total annual City revenue is estimated at \$200,800.
4. The Hotel Scenario is projected to generate a supportable base ground lease payment of \$130,700 per year. The City will also receive property tax and TOT revenue that are projected at \$1.03 million per year. This brings the estimated total City revenue to \$1.17 million per year.

RECOMMENDATIONS

It is the KMA conclusion that the Hotel Scenario represents the strongest potential use for the Development Site. In accordance with the results of the PKF study, KMA recommends that the City take the next steps toward attracting a high-quality lifestyle hotel.

It is the KMA recommendation that the City issue a Request for Qualifications (RFQ) to potential hotel developers. The RFQ should focus on the experience and financial strength of the respondents. Following the evaluation of the responses, a Request for Proposals (RFP) should be distributed to a shortlist of qualified RFQ respondents. The RFP should spell out the City's policy objectives for the development, including the requirement that the base ground rent be supplemented with participation shares of the hotel's room revenues and food & beverage revenues.

TABLE 1

SUMMARY TABLE
DEVELOPMENT ALTERNATIVES WITH NO REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

	HOTEL SCENARIO	OFFICE SCENARIO	APARTMENT SCENARIO
I. Development Scope	150 Rooms	160,000 Sf	150 Apts
II. <u>Estimated Construction Costs</u>			
Total Construction Costs	\$39,350,000	\$50,892,000	\$46,095,000
	\$262,300/Room	\$318/Sf	\$295/Sf
III. Estimated Net Operating Income	\$3,737,000	\$4,128,000	\$3,055,000
IV. <u>Estimated Supportable Land Value</u>			
Estimated Supportable Private Investment	\$45,297,000	\$55,040,000	\$53,130,000
Estimated Construction Costs	39,350,000	50,892,000	46,095,000
Estimated Supportable Land Value	\$5,947,000	\$4,148,000	\$7,035,000
Per Square Foot of Land Area	\$46	\$32	\$54

TABLE 2

SUMMARY TABLE
DEVELOPMENT ALTERNATIVES WITH REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

	<u>HOTEL SCENARIO</u>	<u>OFFICE SCENARIO</u>	<u>APARTMENT SCENARIO</u>
I. <u>Development Scope</u>			
Use	150 Rooms	160,000 Sf	150 Apts
Number of Replacement Parking Spaces	234 Spaces	234 Spaces	234 Spaces
II. <u>Estimated Supportable Land Value</u>			
Estimated Supportable Private Investment	\$44,752,000	\$55,040,000	\$53,130,000
Estimated Construction Costs	<u>43,445,000</u>	<u>56,815,000</u>	<u>52,130,000</u>
Estimated Supportable Land Value	\$1,307,000	(\$1,775,000)	\$1,000,000
Per Square Foot of Land Area	\$10	(\$14)	\$8
III. Supportable Ground Lease Payment @ 10% of Land Value	\$130,700	(\$177,500)	\$100,000
IV. <u>Estimated Annual City Tax Revenues</u>			
City Share of Property Tax	\$71,700	\$82,600	\$100,800
Transient Occupancy Tax	<u>963,600</u>		
Total Estimated Annual City Tax Revenues	\$1,035,300	\$82,600	\$100,800
V. <u>Estimated Total Annual City Revenue</u>			
Supportable Ground Lease Payment @ 10% of Land Value	\$130,700	(\$177,500)	\$100,000
Total Estimated Annual City Tax Revenues	<u>1,035,300</u>	<u>82,600</u>	<u>100,800</u>
Estimated Total Annual City Revenue	\$1,166,000	(\$94,900)	\$200,800

ATTACHMENT I - APPENDIX A

HOTEL SCENARIO

150 ROOMS - NO REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT I - APPENDIX A - TABLE 1

ESTIMATED CONSTRUCTION COSTS
HOTEL SCENARIO: TYPE V CONSTRUCTION
150 ROOMS - NO 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	165	Spaces	\$3,500 /Space	578,000	²
Parking Deck	0	Spaces	\$15,000 /Space	0	
Building Costs	150	Rooms	\$115,000 /Room	17,250,000	
Hotel FF&E Costs	150	Rooms	\$20,000 /Room	3,000,000	
Contractor Fees/General Requirements	14.0%	Construction Costs		2,835,000	
Builder's Risk Insurance	2.0%	Construction Costs		405,000	
Contingency Allowance	5.0%	Other Direct Costs		1,175,000	
Total Direct Costs	84,235	Sf GBA	\$315 /Sf GBA	\$26,550,000	
II. Indirect Costs					
Architecture, Engineering & Consulting	6.0%	Direct Costs		\$1,593,000	
Public Permits & Fees/Impact Fees	84,235	Sf GBA	\$16.00 /Sf GBA	1,348,000	
Taxes, Insurance, Legal & Accounting	3.0%	Direct Costs		797,000	
Pre-Opening/Working Capital	150	Rooms	\$5,000 /Room	750,000	
Development Management	4.0%	Direct Costs		1,062,000	
Contingency Allowance	5.0%	Other Indirect Costs		278,000	
Total Indirect Costs				\$5,828,000	
III. Financing Costs					
Construction Loan Interest	³ \$39,350,000	Financed	5.50% Interest	3,030,000	
Financing Fees					
Construction Loan	\$39,350,000	Financed	2.50 Points	984,000	
Permanent Loan	⁴ \$34,701,000	Financed	2.50 Points	868,000	
Total Financing Costs				\$6,972,000	
IV. Total Construction Costs					
	84,235	Sf GBA	\$470 /Sf GBA	\$39,350,000	
	150	Rooms	\$262,300 /Room		

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

² Hotel parking is set at 1.10 spaces per hotel room.

³ Assumes an 18-month construction period with a 60% average outstanding balance.

⁴ Assumes a 7.00% capitalization rate and a 65% loan-to-value ratio.

ATTACHMENT I - APPENDIX A - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME ¹
HOTEL SCENARIO: TYPE V CONSTRUCTION
150 ROOMS - NO REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. <u>Hotel Income</u>				
Room Rate	²	150 Rooms	\$220 /Room/Night	\$9,636,000
Food & Beverage		26% Gross Sales	\$24,800 /Room	3,723,000
Other		5% Gross Sales	\$4,700 /Room	701,000
Gross Income				\$14,060,000
II. <u>Distributed Expenses</u>				
Rooms		25% of Dept. Sales	\$16,100 /Room	\$2,409,000
Food & Beverage		75% of Dept. Sales	\$18,600 /Room	2,792,000
Other		60% of Dept. Sales	\$2,800 /Room	420,000
(Less) Total Distributed Expenses				\$5,621,000
III. <u>Undistributed Expenses</u>				
General & Administration		9% Gross Income	\$8,000 /Room	\$1,200,000
Franchise Fees		0% Gross Income	\$0 /Room	0
Marketing		8% Gross Income	\$7,200 /Room	1,080,000
Utilities		3% Gross Income	\$2,500 /Room	375,000
Maintenance & Property Operation		3% Gross Income	\$3,200 /Room	480,000
(Less) Total Undistributed Expenses				\$3,135,000
IV. <u>Management Fees</u>				
		3.0% Gross Revenues	\$2,813 /Room	\$422,000
V. <u>Fixed Expenses</u>				
Property Taxes		1.1% Construction Costs	\$2,887 /Room	\$433,000
Insurance		1% Gross Income	\$1,000 /Room	150,000
FF&E Reserves		4% Gross Income	\$3,700 /Room	562,000
(Less) Total Fixed Expenses				\$1,145,000
VI. <u>Net Operating Income</u>				
		27% Gross Revenues	\$3,737,000	

¹ Based on estimates provided by PKF Consulting USA.

² Assumes an 80% occupancy rate.

ATTACHMENT I - APPENDIX A - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
HOTEL SCENARIO: TYPE V CONSTRUCTION
150 ROOMS - NO REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. <u>Estimated Supportable Private Investment</u>			
Net Operating Income	(See ATTACHMENT I - APPENDIX A - TABLE 2)	\$3,737,000	
Threshold Stabilized Return	¹	8.25%	
Supportable Private Investment			\$45,297,000
II. <u>Supportable Land Value</u>			
Supportable Private Investment			\$45,297,000
(Less) Total Construction Costs	(See ATTACHMENT I - APPENDIX A - TABLE 1)		(39,350,000)
III. <u>Supportable Land Value</u>			
	130,680 Sf Land	\$46 /Sf Land	\$5,947,000
IV. <u>Supportable Ground Lease Payment @ 10% of Land Value</u>			\$594,700

¹ Based on a 7.00% capitalization rate drawn from Situs RERC estimates for the 2nd Quarter 2015 for the Los Angeles Region, plus a 1.25% margin.

ATTACHMENT I - APPENDIX B

OFFICE SCENARIO

160,000 SF OFFICE SPACE - NO REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT I - APPENDIX B - TABLE 1

ESTIMATED CONSTRUCTION COSTS
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE GBA
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. Direct Costs					
Site Improvement Costs	¹	130,680 Sf Land	\$10.00 /Sf Land		\$1,307,000
Structured Parking Costs	²	533 Spaces	\$20,000 /Space		10,660,000
Building Costs		160,000 Sf Office GBA	\$100 /Sf Office GBA		16,000,000
Office Tenant Improvement Costs		160,000 Sf Office GBA	\$30 /Sf Office GBA		4,800,000
Contractor Fees/General Requirements		14.0% Construction Costs			2,240,000
Builder's Risk Insurance		2.0% Construction Costs			320,000
Contingency Allowance		5.0% Other Direct Costs			1,168,000
Total Direct Costs		160,000 Sf Office GBA	\$228 /Sf Office GBA		\$36,495,000
II. Indirect Costs					
Architecture, Engineering & Consulting		6.0% Direct Costs			\$2,190,000
Public Permits & Fees/Impact Fees		160,000 Sf Office GBA	\$16.00 /Sf Office GBA		2,560,000
Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			1,095,000
Marketing & Leasing Costs		160,000 Sf Office GBA	\$3.00 /Sf Office GBA		480,000
Development Management		4.0% Direct Costs			1,460,000
Contingency Allowance		5.0% Other Indirect Costs			389,000
Total Indirect Costs					\$8,174,000
III. Financing Costs					
Construction Loan Interest	³	\$50,892,000 Financed	5.50% Interest		\$3,919,000
Financing Fees					
Construction Loan		\$50,892,000 Financed	2.50 Points		1,272,000
Permanent Loan	⁴	\$41,280,000 Financed	2.50 Points		1,032,000
Total Financing Costs					\$6,223,000
IV. Total Construction Costs		160,000 Sf GBA	\$318 /Sf Office GBA		\$50,892,000

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

² Assumes parking ratio of 3.33 spaces per 1,000 sf of office space.

² Assumes an 18-month construction period with a 60% average outstanding balance, and a 6-month lease-up period with a 100% average outstanding balance.

³ Assumes a 6.50% capitalization rate and a 65% loan-to-value ratio.

ATTACHMENT I - APPENDIX B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE GBA
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. <u>Office Rental Income</u>						
Office Income	¹	160,000	Sf Office GBA	\$42.00	/Sf Office GBA	\$6,720,000
(Less) Vacancy & Collection Allowance		10.0%	Gross Income			(672,000)
Effective Gross Income						\$6,048,000
II. Office Operating Expenses						
		160,000	Sf Office GBA	\$12.00	/Sf Office GBA	\$1,920,000
III. Office Net Operating Income						\$4,128,000

¹ Equates to a lease rate of \$3.50 per square foot per month on a full service gross basis.

ATTACHMENT I - APPENDIX B - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE GBA
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. Estimated Supportable Private Investment

Net Operating Income	(See ATTACHMENT I - APPENDIX B - TABLE 2)	\$4,128,000
Threshold Stabilized Return	¹	7.50%
Supportable Private Investment		\$55,040,000

II. Supportable Land Value

Supportable Private Investment		\$55,040,000
(Less) Total Construction Costs	(See ATTACHMENT I - APPENDIX B - TABLE 1)	(50,892,000)

III. **Supportable Land Value** 130,680 Sf Land \$32 /Sf Land \$4,148,000

IV. **Supportable Ground Lease Payment @ 10% of Land Value** **\$414,800**

¹ Based on a 6.50% capitalization rate drawn from Situs RERC estimates for the 2nd Quarter 2015 for the Los Angeles Region, plus a 1.00% margin.

ATTACHMENT I - APPENDIX C

APARTMENT SCENARIO

150 APARTMENT UNITS - NO REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT I - APPENDIX C - TABLE 1

ESTIMATED CONSTRUCTION COSTS

APARTMENT SCENARIO: TYPE V CONSTRUCTION

150 APARTMENT UNITS - NO REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

I. Direct Costs					
Site Improvement Costs	¹	130,680	Sf Land	\$10.00 /Sf Land	\$1,307,000
Structured Parking Costs	²	338	Spaces	\$20,000 /Space	6,760,000
Building Costs		156,000	Sf Apt GBA	\$125 /Sf Apt GBA	19,500,000
Apartment FF&E Costs		150	Units	\$2,000 /Unit	300,000
Contractor Fees/General Requirements		14.0%	Construction Costs		2,772,000
Builder's Risk Insurance		2.0%	Construction Costs		396,000
Contingency Allowance		5.0%	Other Direct Costs		1,148,000
Total Direct Costs		156,000	Sf GBA	\$206 /Sf GBA	\$32,183,000
II. Indirect Costs					
Architecture, Engineering & Consulting		6.0%	Direct Costs		\$1,931,000
Public Permits & Fees/Impact Fees		150	Units	\$20,000 /Unit	3,000,000
Taxes, Insurance, Legal & Accounting		3.0%	Direct Costs		965,000
Marketing & Leasing Costs		2.0%	Direct Costs		644,000
Development Management		4.0%	Direct Costs		1,287,000
Contingency Allowance		5.0%	Other Indirect Costs		391,000
Total Indirect Costs					\$8,218,000
III. Financing Costs					
Construction Loan Interest	³	\$46,095,000	Financed	5.50% Interest	\$3,549,000
Financing Fees					
Construction Loan		\$46,095,000	Financed	2.50 Points	1,152,000
Permanent Loan	⁴	\$39,715,000	Financed	2.50 Points	993,000
Total Financing Costs					\$5,694,000
IV. Total Construction Costs		156,000	Sf GBA	\$295 /Sf GBA	\$46,095,000

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

² Assumes a parking ratio of 2.25 spaces per apartment unit.

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.

ATTACHMENT I - APPENDIX C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 APARTMENT SCENARIO: TYPE V CONSTRUCTION
 150 APARTMENT UNITS - NO REPLACEMENT PARKING SPACES
 PARKVIEW AVENUE SITE
 MANHATTAN BEACH, CALIFORNIA

I. <u>Apartment Income</u>				¹
Manager's Unit (Two-Bdrm)	1 Unit	\$0 /Unit/Month	\$0	
Studio Units	15 Units	\$1,867 /Unit/Month	336,000	
One-Bedroom Units	60 Units	\$2,345 /Unit/Month	1,689,000	
Two-Bedroom Units	59 Units	\$3,043 /Unit/Month	2,155,000	
Three-Bedroom Units	15 Units	\$3,300 /Unit/Month	594,000	
Laundry & Miscellaneous Income	150 Units	\$10 /Unit/Month	18,000	
Gross Apartment Income			\$4,792,000	
(Less) Vacancy & Collection Allowance	5% Gross Apartment Income		(240,000)	
Effective Gross Income			\$4,552,000	
II. <u>Apartment Operating Expenses</u>				
General Operating Expenses	150 Units	\$5,500 /Unit	\$825,000	
Property Taxes	150 Units	\$4,480 /Unit	672,000	
Total Apartment Operating Expenses			\$1,497,000	
III. <u>Net Operating Income</u>			\$3,055,000	

¹ Equates to an average market rent of \$3.06 per square foot per month.

² Based on a 5.00% capitalization rate.

ATTACHMENT I - APPENDIX C - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
 APARTMENT SCENARIO: TYPE V CONSTRUCTION
 150 APARTMENT UNITS - NO REPLACEMENT PARKING SPACES
 PARKVIEW AVENUE SITE
 MANHATTAN BEACH, CALIFORNIA

I. <u>Estimated Supportable Private Investment</u>			
Net Operating Income	(See ATTACHMENT I - APPENDIX C - TABLE 2)	\$3,055,000	
Threshold Stabilized Return	¹	5.75%	
Supportable Private Investment			\$53,130,000
II. <u>Supportable Land Value</u>			
Supportable Private Investment			\$53,130,000
(Less) Total Construction Costs	(See ATTACHMENT I - APPENDIX C - TABLE 1)		(46,095,000)
III. Supportable Land Value			
	130,680 Sf Land	\$54 /Sf Land	\$7,035,000
IV. <u>Supportable Ground Lease Payment @ 10% of Land Value</u>			\$703,500

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.

ATTACHMENT II - APPENDIX A

HOTEL SCENARIO

150 ROOMS AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT II - APPENDIX A - TABLE 1

ESTIMATED CONSTRUCTION COSTS
HOTEL SCENARIO: TYPE V CONSTRUCTION
150 ROOMS 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					²
Surface Parking	199	Spaces	\$3,500 /Space	697,000	
Parking Deck	200	Spaces	\$15,000 /Space	3,000,000	
Building Costs	150	Rooms	\$115,000 /Room	17,250,000	
Hotel FF&E Costs	150	Rooms	\$20,000 /Room	3,000,000	
Contractor Fees/General Requirements	14.0%	Construction Costs		2,835,000	
Builder's Risk Insurance	2.0%	Construction Costs		405,000	
Contingency Allowance	5.0%	Other Direct Costs		1,175,000	
Total Direct Costs	84,235	Sf GBA	\$352 /Sf GBA	\$29,669,000	
II. Indirect Costs					
Architecture, Engineering & Consulting	6.0%	Direct Costs		\$1,780,000	
Public Permits & Fees/Impact Fees	84,235	Sf GBA	\$16.00 /Sf GBA	1,348,000	
Taxes, Insurance, Legal & Accounting	3.0%	Direct Costs		890,000	
Pre-Opening/Working Capital	150	Rooms	\$5,000 /Room	750,000	
Development Management	4.0%	Direct Costs		1,187,000	
Contingency Allowance	5.0%	Other Indirect Costs		298,000	
Total Indirect Costs				\$6,253,000	
III. Financing Costs					
Construction Loan Interest	³ \$43,445,000	Financed	5.50% Interest	3,345,000	
Financing Fees					
Construction Loan	\$43,445,000	Financed	2.50 Points	1,086,000	
Permanent Loan	⁴ \$34,283,000	Financed	2.50 Points	857,000	
Total Financing Costs				\$7,523,000	
IV. Total Construction Costs					
	84,235	Sf GBA	\$520 /Sf GBA	\$43,445,000	
	150	Rooms	\$289,600 /Room		

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

² Hotel parking totals 165 spaces, which equates to 1.10 spaces per hotel room.

³ Assumes an 18-month construction period with a 60% average outstanding balance.

⁴ Assumes a 7.00% capitalization rate and a 65% loan-to-value ratio.

ATTACHMENT II - APPENDIX A - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME ¹

HOTEL SCENARIO: TYPE V CONSTRUCTION

150 ROOMS AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

I. <u>Hotel Income</u>				
Room Rate	²	150 Rooms	\$220 /Room/Night	\$9,636,000
Food & Beverage		26% Gross Sales	\$24,800 /Room	3,723,000
Other		5% Gross Sales	\$4,700 /Room	701,000
Gross Income				\$14,060,000
II. <u>Distributed Expenses</u>				
Rooms		25% of Dept. Sales	\$16,100 /Room	\$2,409,000
Food & Beverage		75% of Dept. Sales	\$18,600 /Room	2,792,000
Other		60% of Dept. Sales	\$2,800 /Room	420,000
(Less) Total Distributed Expenses				\$5,621,000
III. <u>Undistributed Expenses</u>				
General & Administration		9% Gross Income	\$8,000 /Room	\$1,200,000
Franchise Fees		0% Gross Income	\$0 /Room	0
Marketing		8% Gross Income	\$7,200 /Room	1,080,000
Utilities		3% Gross Income	\$2,500 /Room	375,000
Maintenance & Property Operation		3% Gross Income	\$3,200 /Room	480,000
(Less) Total Undistributed Expenses				\$3,135,000
IV. <u>Management Fees</u>				
		3.0% Gross Revenues	\$2,813 /Room	\$422,000
V. <u>Fixed Expenses</u>				
Property Taxes		1.1% Construction Costs	\$3,187 /Room	\$478,000
Insurance		1% Gross Income	\$1,000 /Room	150,000
FF&E Reserves		4% Gross Income	\$3,700 /Room	562,000
(Less) Total Fixed Expenses				\$1,190,000
VI. <u>Net Operating Income</u>				
		26% Gross Revenues		\$3,692,000

¹ Based on estimates provided by PKF Consulting USA.

² Assumes an 80% occupancy rate.

ATTACHMENT II - APPENDIX A - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
HOTEL SCENARIO: TYPE V CONSTRUCTION
150 ROOMS AND 234 REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. <u>Estimated Supportable Private Investment</u>			
Net Operating Income	(See ATTACHMENT II - APPENDIX A - TABLE 2)	\$3,692,000	
Threshold Stabilized Return	¹	8.25%	
Supportable Private Investment			\$44,752,000
II. <u>Supportable Land Value</u>			
Supportable Private Investment			\$44,752,000
(Less) Total Construction Costs	(See ATTACHMENT II - APPENDIX A - TABLE 1)		(43,445,000)
III. <u>Supportable Land Value</u>			
	130,680 Sf Land	\$10 /Sf Land	\$1,307,000
IV. <u>Supportable Ground Lease Payment @ 10% of Land Value</u>			\$130,700

¹ Based on a 7.00% capitalization rate drawn from Situs RERC estimates for the 2nd Quarter 2015 for the Los Angeles Region, plus a 1.25% margin.

ATTACHMENT II - APPENDIX B

OFFICE SCENARIO

160,000 SF OFFICE SPACE AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT II - APPENDIX B - TABLE 1

ESTIMATED CONSTRUCTION COSTS
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE SPACE AND 234 REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. Direct Costs					
Site Improvement Costs	¹	130,680	Sf Land	\$10.00 /Sf Land	\$1,307,000
Structured Parking Costs	²	767	Spaces	\$20,000 /Space	15,340,000
Building Costs		160,000	Sf Office GBA	\$100 /Sf Office GBA	16,000,000
Office Tenant Improvement Costs		160,000	Sf Office GBA	\$30 /Sf Office GBA	4,800,000
Contractor Fees/General Requirements		14.0%	Construction Costs		2,240,000
Builder's Risk Insurance		2.0%	Construction Costs		320,000
Contingency Allowance		5.0%	Other Direct Costs		1,168,000
Total Direct Costs		160,000	Sf Office GBA	\$257 /Sf Office GBA	\$41,175,000
II. Indirect Costs					
Architecture, Engineering & Consulting		6.0%	Direct Costs		\$2,471,000
Public Permits & Fees/Impact Fees		160,000	Sf Office GBA	\$16.00 /Sf Office GBA	2,560,000
Taxes, Insurance, Legal & Accounting		3.0%	Direct Costs		1,235,000
Marketing & Leasing Costs		160,000	Sf Office GBA	\$3.00 /Sf Office GBA	480,000
Development Management		4.0%	Direct Costs		1,647,000
Contingency Allowance		5.0%	Other Indirect Costs		420,000
Total Indirect Costs					\$8,813,000
III. Financing Costs					
Construction Loan Interest	³	\$56,815,000	Financed	5.50% Interest	\$4,375,000
Financing Fees					
Construction Loan		\$56,815,000	Financed	2.50 Points	1,420,000
Permanent Loan	⁴	\$41,280,000	Financed	2.50 Points	1,032,000
Total Financing Costs					\$6,827,000
IV. Total Construction Costs		160,000	Sf GBA	\$355 /Sf Office GBA	\$56,815,000

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

² Office parking totals 533 spaces, which equates to 3.33 spaces per 1,000 sf of office space.

² Assumes an 18-month construction period with a 60% average outstanding balance, and a 6-month lease-up period with a 100% average outstanding balance.

³ Assumes a 6.50% capitalization rate and a 65% loan-to-value ratio.

ATTACHMENT II - APPENDIX B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE SPACE AND 234 REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. <u>Office Rental Income</u>					
Office Income	¹	160,000	Sf Office GBA	\$42.00 /Sf Office GBA	\$6,720,000
(Less) Vacancy & Collection Allowance		10.0%	Gross Income		<u>(672,000)</u>
Effective Gross Income					\$6,048,000
II. Office Operating Expenses		160,000	Sf Office GBA	\$12.00 /Sf Office GBA	\$1,920,000
III. <u>Office Net Operating Income</u>					
					\$4,128,000

¹ Equates to a lease rate of \$3.50 per square foot per month on a full service gross basis.

ATTACHMENT II - APPENDIX B - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
OFFICE SCENARIO: TYPE V CONSTRUCTION
160,000 SF OFFICE SPACE AND 234 REPLACEMENT PARKING SPACES
PARKVIEW AVENUE SITE
MANHATTAN BEACH, CALIFORNIA

I. Estimated Supportable Private Investment

Net Operating Income		\$4,128,000
Threshold Stabilized Return	¹ (See ATTACHMENT II - APPENDIX B - TABLE 2)	7.50%
Supportable Private Investment		\$55,040,000

II. Supportable Land Value

Supportable Private Investment		\$55,040,000
(Less) Total Construction Costs	(See ATTACHMENT II - APPENDIX B - TABLE 1)	(56,815,000)

III. **Supportable Land Value** 130,680 Sf Land (\$14) /Sf Land (\$1,775,000)

IV. **Supportable Ground Lease Payment @ 10% of Land Value** **(\$177,500)**

¹ Based on a 6.50% capitalization rate drawn from Situs RERC estimates for the 2nd Quarter 2015 for the Los Angeles Region, plus a 1.00% margin.

ATTACHMENT II - APPENDIX C

APARTMENT SCENARIO

150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

ATTACHMENT II - APPENDIX C - TABLE 1

ESTIMATED CONSTRUCTION COSTS

APARTMENT SCENARIO: TYPE V CONSTRUCTION

150 APARTMENT UNITS AND 234 REPLACEMENT PARKING SPACES

PARKVIEW AVENUE SITE

MANHATTAN BEACH, CALIFORNIA

I. Direct Costs					
Site Improvement Costs	¹	130,680	Sf Land	\$10.00 /Sf Land	\$1,307,000
Structured Parking Costs	²	572	Spaces	\$20,000 /Space	11,440,000
Building Costs		156,000	Sf Apt GBA	\$125 /Sf Apt GBA	19,500,000
Apartment FF&E Costs		150	Units	\$2,000 /Unit	300,000
Contractor Fees/General Requirements		14.0%	Construction Costs		2,772,000
Builder's Risk Insurance		2.0%	Construction Costs		396,000
Contingency Allowance		5.0%	Other Direct Costs		1,148,000
Total Direct Costs		156,000	Sf GBA	\$236 /Sf GBA	\$36,863,000
II. Indirect Costs					
Architecture, Engineering & Consulting		6.0%	Direct Costs		\$2,212,000
Public Permits & Fees/Impact Fees		150	Units	\$20,000 /Unit	3,000,000
Taxes, Insurance, Legal & Accounting		3.0%	Direct Costs		1,106,000
Marketing & Leasing Costs		2.0%	Direct Costs		737,000
Development Management		4.0%	Direct Costs		1,475,000
Contingency Allowance		5.0%	Other Indirect Costs		427,000
Total Indirect Costs					\$8,957,000
III. Financing Costs					
Construction Loan Interest	³	\$52,130,000	Financed	5.50% Interest	\$4,014,000
Financing Fees					
Construction Loan		\$52,130,000	Financed	2.50 Points	1,303,000
Permanent Loan	⁴	\$39,715,000	Financed	2.50 Points	993,000
Total Financing Costs					\$6,310,000
IV. Total Construction Costs		156,000	Sf GBA	\$334 /Sf GBA	\$52,130,000

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

² Apartment parking totals 338 spaces, which equates to a parking ratio of 2.25 spaces per apartment unit.

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.

ATTACHMENT II - APPENDIX C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 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 (Two-Bdrm)	1 Unit	\$0 /Unit/Month	\$0	
Studio Units	15 Units	\$1,867 /Unit/Month	336,000	
One-Bedroom Units	60 Units	\$2,345 /Unit/Month	1,689,000	
Two-Bedroom Units	59 Units	\$3,043 /Unit/Month	2,155,000	
Three-Bedroom Units	15 Units	\$3,300 /Unit/Month	594,000	
Laundry & Miscellaneous Income	150 Units	\$10 /Unit/Month	18,000	
Gross Apartment Income			\$4,792,000	
(Less) Vacancy & Collection Allowance	5% Gross Apartment Income		(240,000)	
Effective Gross Income			\$4,552,000	
II. <u>Apartment Operating Expenses</u>				
General Operating Expenses	150 Units	\$5,500 /Unit	\$825,000	
Property Taxes	150 Units	\$4,480 /Unit	672,000	
Total Apartment Operating Expenses			\$1,497,000	
III. <u>Net Operating Income</u>			\$3,055,000	

¹ Equates to an average market rent of \$3.06 per square foot per month.

² Based on a 5.00% capitalization rate.

ATTACHMENT II - APPENDIX C - TABLE 3

ESTIMATED SUPPORTABLE LAND VALUE
 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			\$3,055,000
Threshold Stabilized Return	¹	(See ATTACHMENT II - APPENDIX C - TABLE 2)	<u>5.75%</u>
Supportable Private Investment			\$53,130,000
II. <u>Supportable Land Value</u>			
Supportable Private Investment			\$53,130,000
(Less) Total Construction Costs		(See ATTACHMENT II - APPENDIX C - TABLE 1)	(52,130,000)
III. Supportable Land Value	130,680 Sf Land	\$8 /Sf Land	\$1,000,000
IV. <u>Supportable Ground Lease Payment @ 10% of Land Value</u>			\$100,000

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.