Economic Feasibility of Alternatives at

CELINE

1620 State Street • San Diego, CA 92101

Presented By ZLD Consulting

Summary:

This report considers the base case and four alternatives for the development of an affordable rental apartment complex on the 4,979 square foot lot located at 1620 State Street between Cedar Street and Date Street in the Little Italy neighborhood of San Diego.

Current Background:

As planned, the entire site would be developed with an eight-story concrete structure containing 52 residential apartments with an average size of 300 square feet, plus two commercial units. There would be no on-site parking.

1620 State Street will include 84% market rate units and 16% median units.

Exhibit 1-A

Market rent would be approximately $1,800 per month for a studio and $2,100 for a one-bedroom unit. The market rate units coincide closely with rents at 80% of the Average Median Income in San Diego County.

City of San Diego 80% Area Median Income (AMI) Studio Units Rent for One (1) Occupant			
Income Threshold	**Monthly Rent (2)**	**Less Utility Allowance (1)**	**Cash Rent**
$84,900	$ 2,123	$250	$1,873
(1) Based on SD Housing Commission Schedule (2) U.S. Department of Housing & Urban Development			

Exhibit 1-B

City of San Diego 80% Area Median Income (AMI) 1-Bedroom Units Rent for One (1) Occupant HUD Adjusted			
Income Threshold	**Monthly Rent (2)**	**Less Utility Allowance (1)**	**Cash Rent**
$97,000	$ 2,425	$269	$2,156
(1) Based on SD Housing Commission Schedule (2) U.S. Department of Housing & Urban Development			

Continued...

Exhibit 2: The site currently contains a one-story historic structure...

Exhibit 3: A rendering of the project is shown.

We have prepared a financial feasibility analysis to determine the economic feasibility of the various development options/development alternatives of the project, assuming a reasonable economic return for the property owner. We have analyzed the viability of the apartment project, considering the preferred plans (base case) and four development alternatives, as follows:

Base Development Proposal:

This option incorporates the existing Historic Building, which will be moved forward to the front property line, completely into the new development. Level 2 and Level 3 will be setback from the outermost face of the historic building. All other levels will retain 4-foot deck/planter projections over the public right of way and the exterior building wall will be flush with the front property line.

The Historic Building will be placed along the eastern property line. The north, south, and east elevations will remain exposed to the public right of way.

The building structure will stack from roof level down to grade with this base proposal creating an efficient, cost-effective structure.

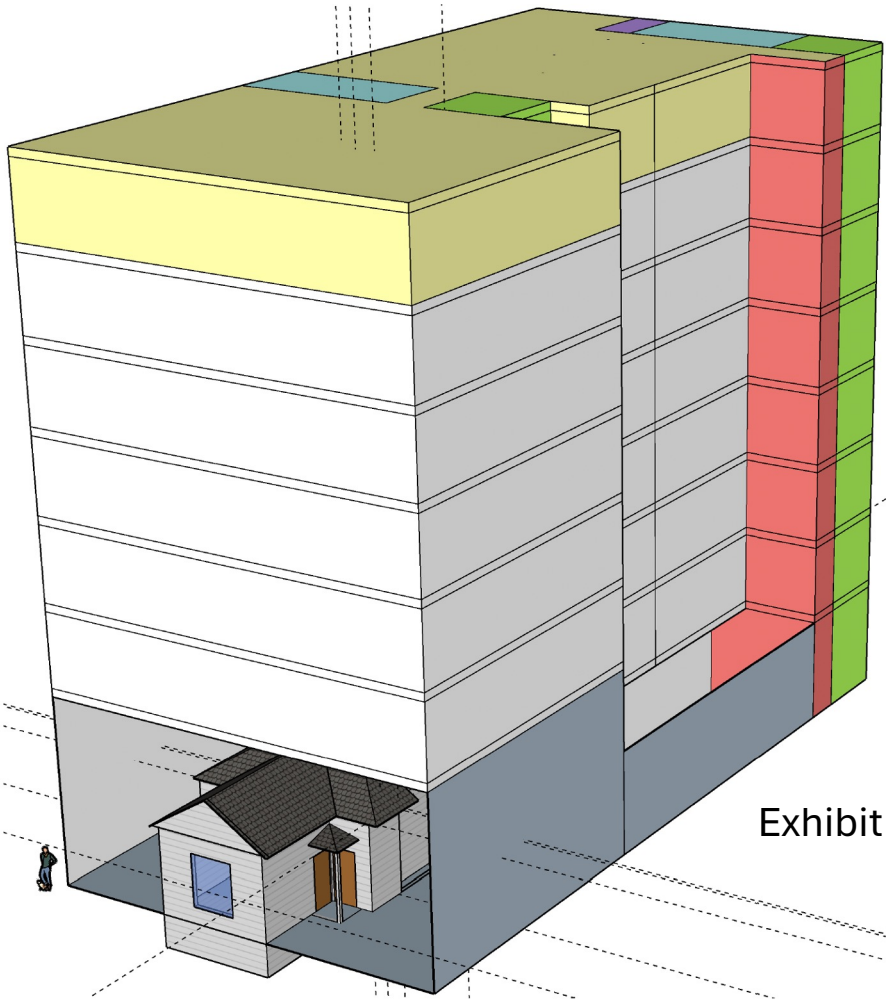

Exhibit 4

Alternative 1:

The historic building will remain in its exact current location with new development limited to the area directly to the rear of the historic building. The new development will feature minimal habitable areas given the need for Life Safety Circulation. As a result, the number of habitable units will have an economic effect on this project. This option cannot accommodate a rooftop commercial space given the small footprint and need for an additional elevator.

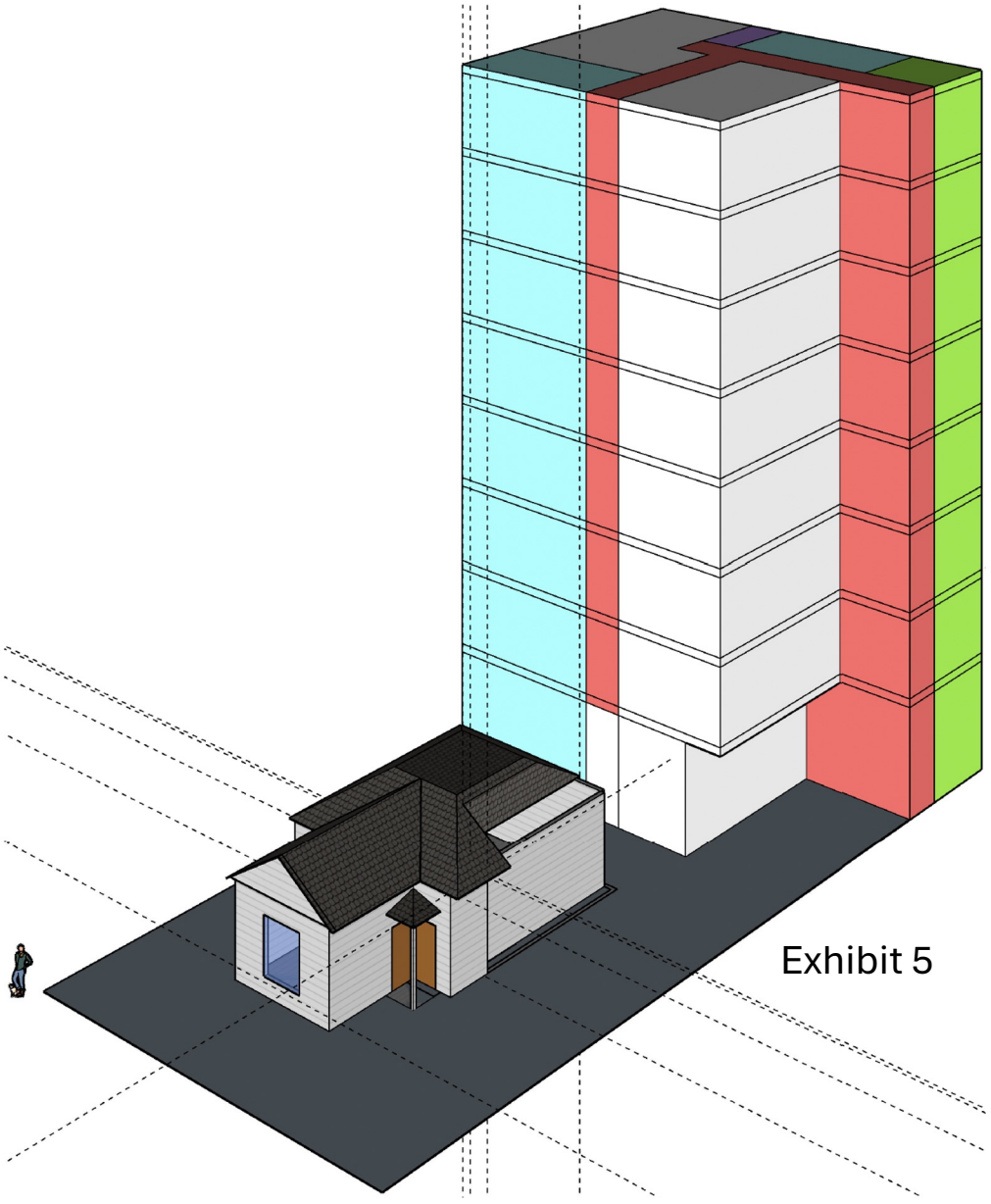

Exhibit 5

Alternative 2:

The historic building will be shifted to the front property line with the new development limited to the area directly to the rear of the historic structure. The new development will feature minimal habitable areas given the need for Life Safety Circulation. As a result, the number of habitable units will have an economic effect on this project. This option cannot accommodate a rooftop commercial space given the small footprint and need for an additional elevator.

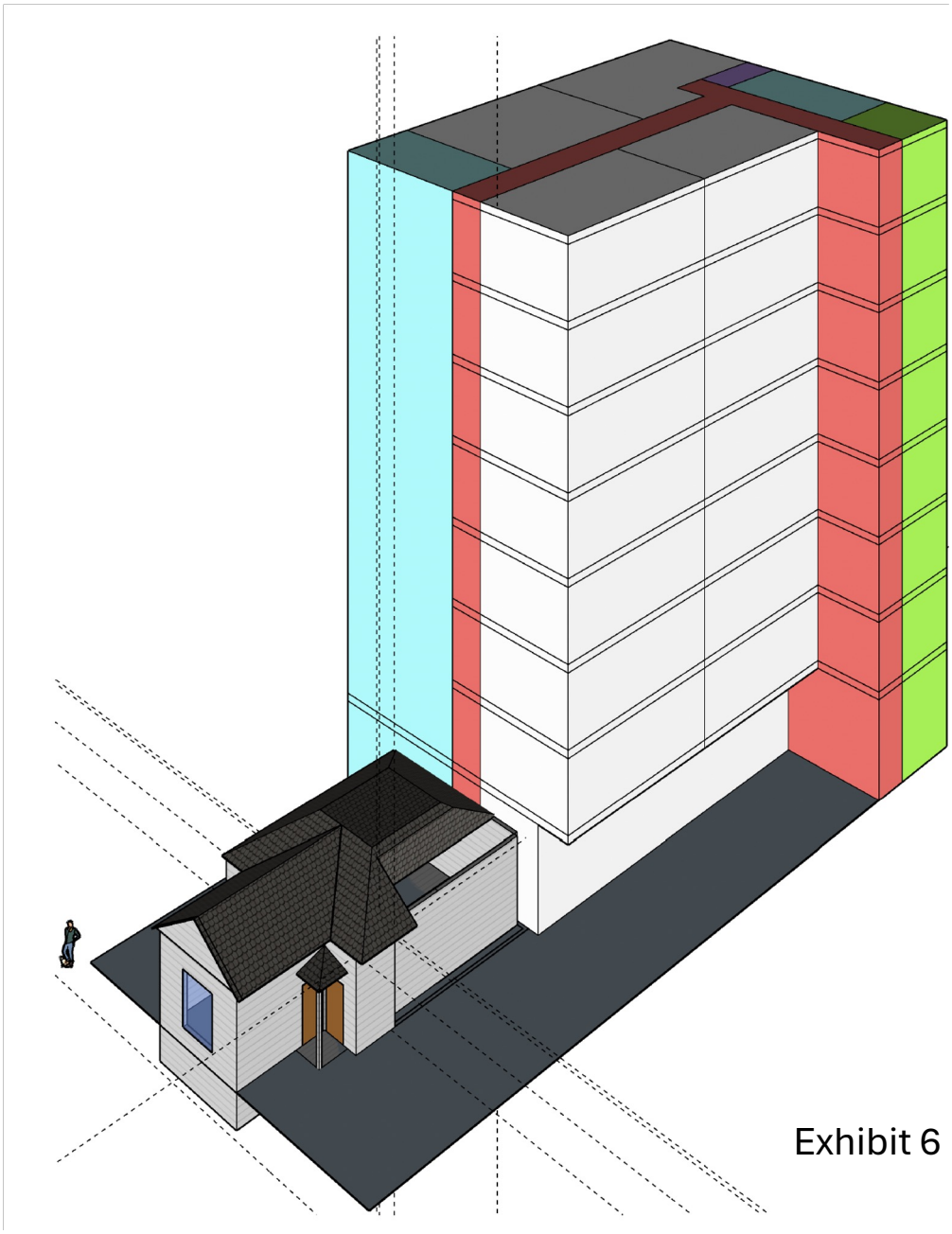

Exhibit 6

Alternative 3:

The historic building will remain in its exact current location and levels 3 through 8 will cantilever over the historic structure. The primary challenge with this alternative is the structural feasibility given the large cantilever. The irregularity of the structure will not meet lateral design requirements per the California Building Code. Additionally, the cantilever will require immense concrete beams to support this design, which will encroach into the planned corridors due to their size. This will result in the loss of space otherwise dedicated for use as rental units.

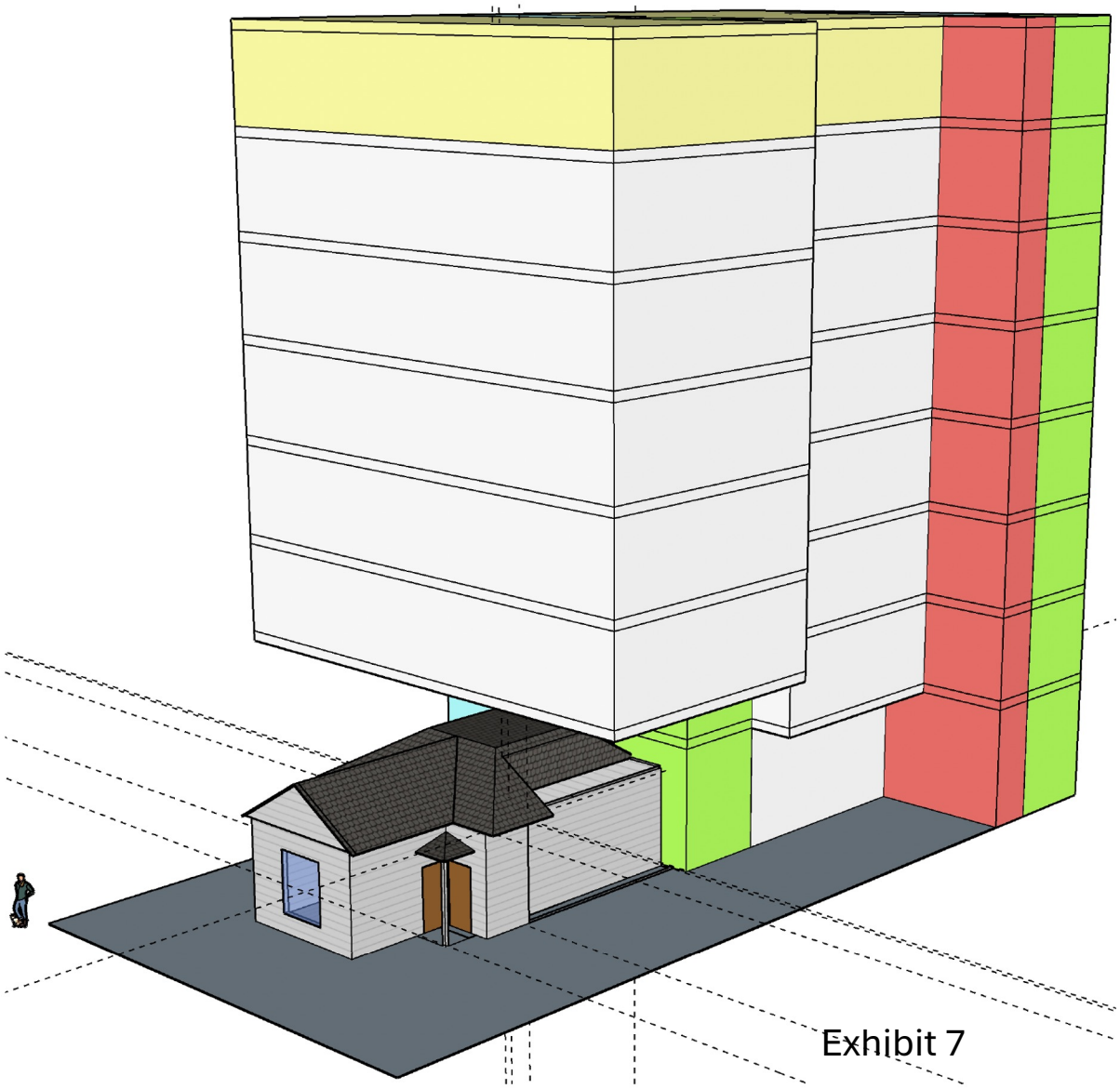

Exhibit 7

Alternative 4:

This alternative proposes the removal of the historic building from this site for rehabilitation and relocation to another site while a completely new building is developed at this location. The feasibility of securing a suitable property for relocation is nearly impossible while the associated costs would make the entire project infeasible. Additionally, we prefer to keep the historic building in its original location to preserve San Diego's rich history. While this relocation alternative will have a tremendous added expense, it may be the second best option given all other alternatives.

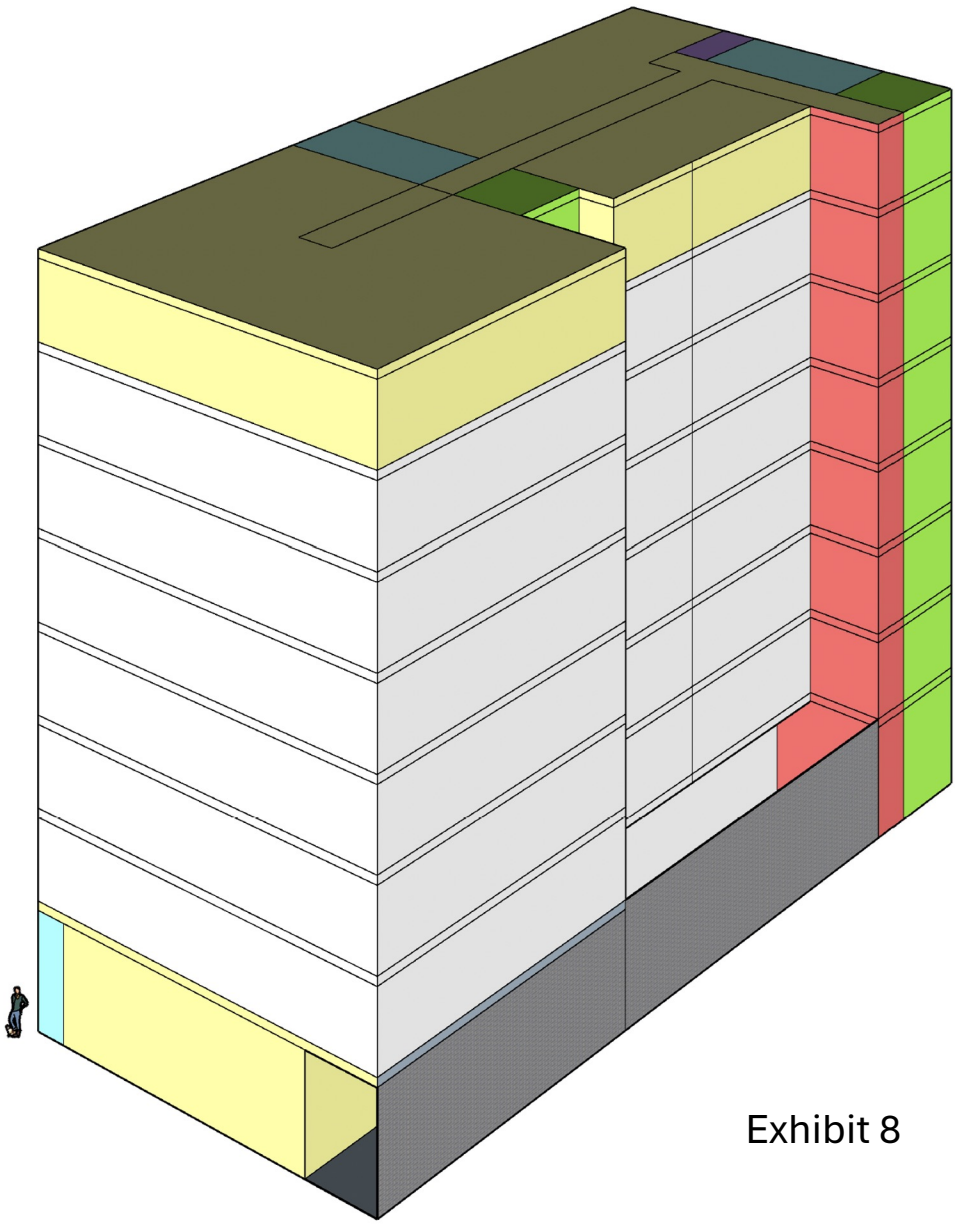

Exhibit 8

Alternative Plans to Determine Economic Consequences
Location/Address

Property	Historic Structure	Apartment Project
Base Project: Move historic structure to front property line; build apartments incorporating historic structure.		
Construction	Move historic structure to front property line	Build 54 units on site
Construction Implications	Renovation	Cost of units
Parking Implications	No Parking on Site	No parking on site
Cost Estimates	Estimate with HVAC, remodeling, seismic & T-24; exterior to be cosmetically improved	Estimated costs prepared for this study
Income Potential	Rent out renovated structure	Optimal income with market rate units
Financial Implications	Net operating income and return on investment to be calculated	Net operating income and return on investment to be calculated
Alternative 1: Retain existing structure in current location and build new project behind it.		
Construction	Retain existing structure in current location	Build 14 units
Construction Implications	Renovation	Cost per rentable square foot increases dramatically
Parking Implications	No Parking on Site	No parking on site
Cost Estimates	Estimate with HVAC, remodeling, seismic & T-24; exterior to be cosmetically improved	Estimated costs prepared for this study
Income Potential	Rent out renovated structure	Income would decline dramatically
Financial Implications	Net operating income and return on investment to be calculated	Cost would be above value
Alternative 2: Move historic structure to front property line and build new project behind it.		
Construction	Move historic structure to front property line	Build 28 units on site
Construction Implications	Renovation	Cost per rentable square foot increases dramatically
Parking Implications	No Parking on Site	No parking on site
Cost Estimates	Estimate with HVAC, remodeling, seismic & T-24; exterior to be cosmetically improved	Estimated costs prepared for this study
Income Potential	Rent out renovated structure	Income would decline dramatically
Financial Implications	Net operating income and return on investment to be calculated	Cost would be above value
Alternative 3: Retain existing structure in current location; cantilever project over historic structure and build above and behind it.		
Construction	Retain existing structure in current location	Build 40 units on site
Construction Implications	Renovation	Cost per rentable square foot increases dramatically
Parking Implications	No Parking on Site	No parking on site
Cost Estimates	Estimate with HVAC, remodeling, seismic & T-24; exterior to be cosmetically improved	Estimated costs prepared for this study
Income Potential	Rent out renovated structure	Income would decline dramatically
Financial Implications	Net operating income and return on investment to be calculated	Cost would be above value
Alternative 4: Relocate historic structure to another site and built entirely new development on site.		
Construction	Relocate historic structure to another site	Build 54 units on site
Construction Implications	Renovation	Cost of units
Parking Implications	No Parking on Site	No parking on site
Cost Estimates	Estimate with HVAC, remodeling, seismic & T-24; exterior to be cosmetically improved	Estimated costs prepared for this study
Income Potential	Rent out renovated structure	Optimal income with market rate units
Financial Implications	Net operating income and return on investment to be calculated	Cost of purchasing new site vs. income from new development

Exhibit 10
The base case and alternative unit count, square footages, and projected rents are shown below.

Project Facts: Square Footage and Projected Revenue

Property Details

Square Footage	TBD
Cost of Land	$2,250,000
Parcel Number	533-352-09

Unit Mix	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	40	14	28	38	40
One Bedroom	12	0	0	0	12
Commercial	2	0	0	2	2
Total Units	54	14	28	40	54

Residential Unit SF (Average)	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	250	250	250	250	250
One Bedroom	400	0	0	0	400

Total Square Footage	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	10,000	3,500	7,000	9,500	10,000
One Bedroom	4,844	0	0	0	4,844
Commercial	10,039	0	0	2,500	10,039
Parking Spaces	n/a	n/a	n/a	n/a	n/a
Core/Community Space	12,837	1,575	3,150	5,400	12,837
Total Square Footage	37,720	5,075	10,150	17,400	37,720

Rent Per Residential Unit	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	$1,873	$1,873	$1,873	$1,873	$1,873
One Bedroom	$2,156	0	0	0	$2,156

Total Projected MONTHLY Revenue	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	$74,920	$26,222	$52,444	$71,174	$74,920
One Bedroom	$25,872	0	0	0	$25,872
Commercial	$24,750	0	0	$10,000	$24,750
Total Projected MONTHLY Revenue	$125,542	$26,222	$52,444	$81,174	$125,542

Total Projected ANNUAL Revenue	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Studios	$899,040	$314,664	$629,328	$854,088	$899,040
One Bedroom	$310,464	$0	$0	$0	$310,464
Commercial	$297,000	$0	$0	$120,000	$297,000
Total Projected ANNUAL Revenue	$1,506,504	$314,664	$629,328	$974,088	$1,506,504

Differential from Base Case	Base Case	Alternative 1	Alternative 2	Alternative 3	Alternative 4
$ Amount	N/A	($1,191,840)	($877,176)	($532,416)	$0
% Differential	N/A	-79.11%	-58.23%	-35.34%	0.00%

Conclusions of Economic Alternatives:

The base case and alternative plans were developed by NDD Inc., including architectural plans and projected costs of development. The report was completed by ZLD Consulting.

John Hansen House Moving provided the cost of moving the historic house. The cost of preparing the new site for the historic home was prepared by NDD Inc. The cost of the land for the new site was based on comparable sales in the area.

Preparing the site for the relocated building includes a new slab, utilities hook-ups, grading and (possibly) fencing.

The four key elements to determine the viability of the base case and alternatives are the rents, expenses, net operating income and development costs. The net operating costs lead to a determination of the value based on a capitalization rate.

Rents, Expenses, and Net Operating Income

Exhibit 11: Rents, Expenses, and Net Operating Income

The market rate levels of the units were determined by the developer.

Market Rate Rents: Base Case and Four Alternatives					
	Base Case	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Studios	$1,873	$1,873	$1,873	$1,873	$1,873
One Bedroom	$2,156				$2,156
Commercial	$24,750			$10,000	$24,750

Exhibit 12: Operating Expenses

We segmented operating expenses into two categories: fixed and variable. The expenses shown below are at the stabilized level.

- Fixed expenses are those that will not vary for the base case and alternatives. They include salaries for the management, maintenance and other salaries and burden. They do vary significantly on a per unit basis.

- Variable expenses relate to the number of units. Typically, that category would include insurance, costs of turnover, repairs and maintenance and common area utilities.

- Property taxes are calculated at 1.1% of the total costs of the project including land. The actual tax amount will be determined by the County Assessor upon completion of the project. The taxes will change based on the number of units.

Projected Annual Operating Expenses: Year One of Operation					
Expected Annual Operating Expense	**Base Case**	**Alt. 1**	**Alt. 2**	**Alt. 3**	**Alt. 4**
Residential Units	$384,159	$94,399	$188,798	$248,392	$384,159
Commercial Units	$67,793	$0	$0	$43,834	$67,793
Total	$451,951	$94,399	$188,798	$292,226	$451,951
Differential from Best Case Scenario	100%	-74%	-48%	-26%	0%
Fixed Expenses	**Base Case**	**Alt. 1**	**Alt. 2**	**Alt. 3**	**Alt. 4**
Salaries	$112,988	$23,600	$47,200	$73, 057	$112,988
Landscape	$11,299	$2,360	$4,720	$7,306	$11,299
Safety/Security	$11,299	$2,360	$4,720	$7,306	$11,299
Advertising/Promotion	$13,559	$2,832	$5,664	$8,767	$13,559
Property Taxes	$146,884	$30,680	$61,359	$94,974	$146,884
Total Fixed	$296,028	$61,831	$123,663	$191,408	$296,028
Per Unit (Residential & Commercial)	$5,482	$4,417	$4,417	$4,785	$5,482
Variable Expenses	**Base Case**	**Alt. 1**	**Alt. 2**	**Alt. 3**	**Alt. 4**
Management Fees	$45,195	$9,440	$18,880	$29,223	$45,195
Repairs & Maintenance	$45,195	$9,440	$18,880	$29,223	$45,195
Utilities	$20,338	$4,248	$8,496	$13,150	$20,338
Insurance	$45,195	$9,440	$18,880	$29,223	$45,195
Total Variable	$155,923	$32,568	$65,135	$100,818	$155,923
Per Unit (Residential & Commercial)	$2,887	$2,326	$2,326	$2,520	$2,887
Total Project Expenses	$451,951	$94,399	$188,798	$292,226	$451,951
Total Per Unit	$8,369	$6,743	$6,743	$7,306	$8,369
Expenses as % of Gross Revenue	30.0%	30.0%	30.0%	30.0%	30.0%

Exhibit 13: Net Operating Income

The net operating income is computed by subtracting operating expenses from revenue. It is the net operating income that is utilized to calculate the project value, using the capitalization method.

The rents and expenses are calculated for the first full year of operations and which point the building will be completed, rented up and have a stabilized income

Projected Stabilized Net Operating Income: Base & Alternative Options					
	Base Case	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Residential Units	$1,209,504	$314,664	$629,328	$854,088	$1,209,504
Commercial Units	$297,000	$0	$0	$120,000	$297,000
Total Units	$1,506,504	$314,664	$629,328	$974,088	$1,506,504
Projected Gross Revenue	**Base Case**	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Less Vacancy & Collection %	4.50%	4.50%	4.50%	4.50%	4.50%
Less Vacancy & Collection $	$67,793	$14,160	$28,320	$43,834	$67,793
Net Revenues	$1,438,711	$300,504	$601,008	$930,254	$1,438,711
Operating Expenses	$451,951	$94,399	$188,798	$292,226	$451,951
Net Operating Income	$986,760	$206,105	$412,210	$638,028	$986,760

Exhibit 14: Capitalized Value

A Capitalization rate is the rate that the investor marketplace will most often use to determine the value of an investor-grade project. It is the value that relates to the market's determination of the quality of the project, its location and operational history. It is what an investor would expect by way of return on an all-cash basis.

In San Diego today, capitalization rates on investor-grade apartment projects typically range from 4.0% to 6.0% depending on the factors noted above.

We capitalized the project net income from operations at 5% because of its centralized location in downtown highly-desirable Little Italy and the quality of architecture.

Projected Capitalized Value: Base & Alternative Options					
	Base Case	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Residential Units	$838,746	$206,105	$412,210	$542,323	$838,746
Commercial Units	$148,014	$0	$0	$95,704	$148,014
Net Operating Income	$986,760	$206,105	$412,210	$638,028	$986,760
Capitalization Rate	5.00%	5.00%	5.00%	5.00%	5.00%
Capitalized Value of Property	$19,735,202	$4,122,098	$8,244,197	$12,760,553	$19,735,202

Exhibit 15: Development Costs

The development costs prepared for this study have four components:

- Cost of Land
- Hard and soft costs of construction;
- Building permits and fees;
- Loan interest; and
- The costs associated with relocation and rehabilitation of the historic building (Alternative 4).

The land cost for the subject property is $2,250,000.

Estimated Development Costs					
	Base Case	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Total Square Feet	37,720	5,075	10,150	17,400	37,720
Soft Costs	$3,150,000	$787,500	$1,417,500	$2,600,000	$3,150,000
Hard Costs	$10,850,000	$2,712,500	$4,882,500	$8,910,500	$10,850,000
Land Cost	$2,250,000	$2,250,000	$2,250,000	$2,250,000	$2,250,000
Financing Costs	$1,400,000	$350,000	$630,000	$1,150,000	$1,400,000
Construction & Relocation (Hist. House)	$0	$0	$0	$0	$2,650,000
Total Development Costs	$17,650,000	$6,100,000	$9,180,000	$14,910,000	$20,300,000
Cost Per Square Foot	$468	$1,202	$904	$857	$538
Cost Per Unit	$326,852	$435,714	$327,857	$372,750	$375,926

Exhibit 16: Cost of Construction/Moving Historic Structure to a New Lot

The total development costs are shown for the base case and alternatives.

Cost of Construction/Moving Historic Structure to a New Lot					
Category	**Base Case**	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Lot Cost	n/a	n/a	n/a	n/a	$2,000,000
Site Preparation	n/a	n/a	n/a	n/a	$150,000
Relocation	n/a	n/a	n/a	n/a	$150,000
Historic Rehab	n/a	n/a	n/a	n/a	$350,000
Total Cost	n/a	n/a	n/a	n/a	$2,650,000

Exhibit 17: Total Comparable Properties

The sale valuations for similar properties are listed below.

Comparable Properties: Residential Land/Lot Valuation								
APN	**Address**	**Zip**	**Lot Size (SF)**	**Sale Date**	**List Price**	**$/SF**	**Topography**	**Suitability**
444-650-25-00	First Ave.	92103	5340	9/30/24	$6,900,000	$1,292	Sloping	Appropriate
535-101-07-00	744 7th Ave.	92101	5007	6/25/24	$2,950,000	$589	Flat	Appropriate
451-580-22-00	Horton Ave.	92103	6650	10/4/24	$1,700,000	$256	Sloping	Appropriate

Exhibit 18: Estimated Total Costs of Development

On Exhibit 18 the total costs of development are shown for the base case and the four alternatives.

Estimated Total Costs of Development								
Category	Units (2)	Land	Building Construction (1)	Soft Costs & Building Permits	Historic Structure Relocation	Interest on Loan	Total	Cost Per Unit
Base Case	54	$2,250,000	$10,850,000	$3,150,000	$0	$1,400,000	$17,650,000	$326,852
Alt.1	14	$2,250,000	$2,712,500	$787,500	$0	$350,000	$6,100,000	$435,714
Alt.2	28	$2,250,000	$4,882,500	$1,417,500	$0	$630,000	$9,180,000	$327,857
Alt.3	40	$2,250,000	$8,910,000	$2,600,000	$0	$1,150,000	$14,910,000	$372,750
Alt.4	54	$2,250,000	$10,850,000	$3,150,000	$2,650,000	$1,400,000	$20,300,000	$375,926

(1) Excludes cost of relocating historic structure

(2) Includes residential and commercial

Exhibit 19: Final Determination of Economic Value for Base Case & Alternatives

Below, we calculate the differential between the capitalized value of the project and the development costs of the base case and four alternatives.

Summary: Differentials in Value and Net Operating Income Base Case and Four Alternatives					
	Base	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Summary	Move historic structure to front of property line & build new apartments over it.	Historic structure remains at location. New development is limited to the rear of the historic structure.	Historic structure is moved to front property line. New development is limited to the rear of the historic structure.	Historic structure remains at existing location. Cantilever new structure over historic structure.	Move historic structure to alternate site and build new development at current location.
Residential Units	52	14	28	38	52
Commercial Units	2	0	0	2	2
% of Base Recommendations	0%	26%	52%	74%	100%
Capitalized Value Calculation	**Base**	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
First Full Year of Operation	$986,760	$206,105	$412,210	$638,028	$986,760
Capitalization Rate	5.00%	5.00%	5.00%	5.00%	5.00%
Capitalized Value	$19,735,202	$4,122,098	$8,244,197	$12,760,553	$19,735,202
Decrease in Project Value	$0	($15,613,104)	($11,491,006)	($6,974,650)	$0
% Change in Property Value	0%	-79%	-58%	-35%	0%
Loss in Net Operating Income	**Base**	**Alternative 1**	**Alternative 2**	**Alternative 3**	**Alternative 4**
Net Operating Income	$986,760	$206,105	$412,210	$638,028	$986,760
Differential	0%	($780,655)	($574,550)	($348,732)	$0
% Differential		-79%	-58%	-35%	0%
Capitalized Value	$19,735,202	$4,122,098	$8,244,197	$12,760,553	$19,735,202
Development Cost	$17,650,000	$6,100,000	$9,180,000	$14,910,000	$20,300,000
Differential					
Capitalized Value Per Unit	$365,467	$294,436	$294,436	$319,014	$365,467
Development Cost Per Unit	$326,852	$435,714	$327,857	$372,750	$375,926
Economic Preference Rating	1	5	4	3	2

Recommendations:

Alternative 1 keeps the historic house in its current location and limits the new development to the area directly behind the historic structure. This alternative reduces the number of units to 14 and results in a reduction of project value of 79% with a similar net operating loss. The significant incremental costs relative to the reduced value make this an economically infeasible option.

Alternative 2 moves the historic structure to the front property line and builds the new structure to the rear of the structure. This alternative reduces the number of units to 28 and results in a reduction of project value of 58% with a similar net operating loss. The development cost per unit is $33,422 per unit more than the capitalized value. The significant incremental costs make this an economically infeasible option.

Alternative 3 keeps the existing historic structure in its current location with the new structure cantilevered over it. This alternative reduces the number of apartments to 38 units and results in reduction of project value of 35% with a similar new operating loss. The significant incremental costs and logistics of cantilevering the structure make this an economically and physically infeasible option.

Alternative 4 relocates the historic structure to a new location and builds the base case structure. This alternative is much more expensive and economically inferior to the Base project, thus economically infeasible.

Thus, we rank Base Case as the only economically feasible option. Alternatives 1, 2, 3 and 4 are all economically infeasible.

Therefore, it is our professional opinion that the optimal and most economically feasible project is the Base Case.

Disclaimer:

Although the results, conclusions and recommendations contained within this consultant's report are based upon a thorough review and analysis of current competitive market conditions and the expertise of the author, Consultant does not in any way represent, warrant or guarantee that any reported results will be achieved as a result of various reasons, including but not limited to the sensitivity to ever-fluctuating market conditions and the efficiency of a Client and its representatives, agent, employees, successors and assigns.