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SITE DEVELOPMENT PERMIT FINDINGS FOR 1122 FOURTH AVENUE

Prepared by:
Marie Burke Lia, Attorney at Law, on behalf of the Project Applicants

September 2016

FINDINGS

Site Development Permit - Section 126.0504

(a) Findings for all Site Development Permits

1. The proposed development will not adversely affect the applicable land use plan.

The proposed project is the demolition of a historic resource, #291, the California Theatre Building, at its current location in the Core Subarea of the Centre City Planned District at 1122 Fourth Avenue in the Downtown Community Plan area to permit new development on the site. The project was initiated by the current property owner, Sloan Capital Partners, LLC, after it acquired three parcels on the block that is bounded on the south by C Street, on the east by Fourth Avenue, on the north by B Street and on the west by Third Avenue. The three parcels are identified by APN 533-521-04, 533-521-05 and 533-521-08.

Land use and housing issues are addressed in Chapter 3 of the Downtown Community Plan. According to Figure 3-2, the Plan's Downtown Structure, this property is located in the Central District. According to the Plan's Figure 3-4, the Land Use is Neighborhood Mixed-Use Center, which is described on Page 3-12 as follows. "This classification is intended to ensure development of distinctive centers around plazas or “main streets” “that provide a focus to the neighborhoods. It supports mixed-use (residential and non-residential) projects that contain active ground floor uses. A broad array of compatible uses, including retail, restaurants and cafes, residential, office, cultural, educational, and indoor recreation are permitted with active ground floor uses. Building volume restrictions apply to allow sunlight to reach streets and public spaces, and design standards seek to establish highly pedestrian oriented development.” According to Figure 3-6, this block is subject to the Employment Required Overlay, which is described on Page 3-13 as follows: “In addition to land use districts, Figure 3-6 identifies Employment Required Overlay areas where 50 percent of the area will be devoted to office, education, retail, and other commercial uses. That is, residential use cannot exceed more than 50 percent of the area.”

On October 15, 2015, a Proposal to Initiate Amendments to the Downtown Community Plan, Centre City Planned District Ordinance and the Local Coastal Program regarding the Employment Required Overlay Zone, to further encourage appropriate growth in the Downtown Community Plan area, was approved by the City's Planning Commission. The Staff Recommendation in Staff Report No. PC-15-087 on this topic, had been “for the consideration of potential amendments to the CCPDO, DCP, and LCP to amend the boundaries, policies, and/or regulations under the Employment Required Overlay Zone to further encourage appropriate growth in the Downtown Community Plan area.”

According to the Plan’s Figure 3-7, retail is required on the C Street under the Street Level Active Frontage Requirements. According to Page 3-17, these Requirements are intended to facilitate vital retail districts in strategic locations, consequently the plan exempts retail/commercial uses and other public uses on the ground floor from FAR calculations on designated Main Street and Commercial Streets.

The desired development intensity for the area is described on page 3-17 where the Plan establishes intensity standards for various parts of downtown. Intensity is measured as Floor Area Ratio (FAR), obtained by dividing gross floor area by lot area. Figure 3-9 of the Plan shows the allowable minimum and maximum FARs for various sites. The minimum FAR for the subject property is 6.0 and the maximum is 10.0. "Proposed base development intensities in the Community Plan range from 2.0 to 10.0, modulated to provide diversity of scale, as well as high intensities in selected locations." The subject property has a maximum FAR of I0.0, and it is within a selected location for high intensity development.

The Plan Goal 3.2-G-2 is to "Maintain a range of development intensities to provide diversity, while maintaining high overall intensities to use land efficiently and permit population and employment targets to be met." Policy 3.2-P-3 allows "intensity bonuses for development projects in specific locations established by this Plan that provide public amenities/benefits beyond those required for normal development approvals." The proposed project will qualify for several of these intensity bonuses and will qualify for a FAR of 16.23.

If the above-described proposed amendments to the Downtown Community Plan, Centre City Planned District Ordinance and the Local Coastal Program regarding the Employment Required Overlay Zone are ultimately approved, this project would no longer be subject to this Overlay and the project would comply with Chapter 3 of the Downtown Community Plan.

The proposed project complies with Chapter 3 of the Downtown Community Plan as a mixed-use (residential and non-residential) project that will contain active retail and commercial ground floor uses. Building volume restrictions have been applied to allow sunlight to reach streets and public spaces and the design standards utilized will establish a highly pedestrian oriented development on the site.

Historic Preservation is addressed in Chapter 9 of the Downtown Community Plan. The existing structure on the project site is a locally designated historical resource, the California Theatre Building, San Diego Historical Landmark # 291. As indicated in Table 9-1 of the Plan, locally designated resources are to be retained on-site whenever possible. "Partial retention, relocation or demolition of a resource shall only be permitted through applicable City procedures." The applicable City procedures are established in San Diego Municipal Code Chapter 14, Article 3, Division 2, entitled "Historical Resources Regulations" §143.0210(2)(C) requires a Site Development Permit in accordance with Process Four for any development that proposes to deviate from the development regulations for historical resources described in this division. Substantial alteration of a designated resource by demolition or other means is a deviation from the historical resources regulations and therefore a Site Development Permit, as authorized by Chapter 12, Article 6, Division 5, entitled "Site Development Permit Procedures" is required. The decision maker, in this instance the Planning Commission, must make all of the Findings in §126.0504(a) and §126.0504(i) before the demolition of a locally designated historical resource can occur. Therefore, the processing of this Site Development Permit application is in compliance with and will not adversely affect this aspect of the applicable land use plan. The proposed project will comply with Chapter 9 of the Downtown Community Plan.

The Mitigation Monitoring and Reporting Program (MMRP) for the Downtown Community Plan requires the implementation of Mitigation Measure *HIST- A.1-3* if a (locally) designated historical resource would be demolished. That Mitigation Measure requires the submission of a Documentation

Program that must include Photo Documentation and Measured Drawings of the resource to the Historical Resources Board Staff for review and approval. This Mitigation Measure will be implemented.

The subject property was evaluated in a *Historical Resources Technical Report* prepared by AECOM for 1122 4th Avenue LLC in July of 2015. That Report concluded that the subject property is eligible for the National Register under Criterion A and the California Register under Criterion 1, for its local significance associated with the booming development of downtown San Diego in the 1910s; and eligible for the National Register under Criterion C and the California Register under Criterion 3, for its local significance of a good example of a Spanish Colonial Revival-style building.

The Mitigation Monitoring and Reporting Program (MMRP) for the Downtown Community Plan requires the implementation of Mitigation Measure *HIST- A.1-3,* if a National Register or California Register eligible resource would be demolished. That Mitigation measure requires that the resource be retained on site and any improvements, renovation, rehabilitation and /or adaptive reuse of the property shall ensure its preservation and be consistent with the Secretary of the Interior's Guidelines. This Mitigation Measure cannot be implemented without resulting in economic hardship to the owner, which can be found, under the San Diego Municipal Code §126.0504(i), when there is no beneficial use of a property, and it is not feasible to derive a reasonable economic return from the property. A Site Development Permit for the Substantial Alteration of a Designated Historical Resource, such as the subject property, can only be approved if the decision maker makes the Supplemental Findings required under this Code section. This is the purpose and the function of this discretionary Site Development Permit process.

The Downtown Community Plan and Centre City Planned District Ordinance are subject to the Downtown FEIR, a "Program EIR" prepared in compliance with the California Environmental Quality Act (CEQA). A Downtown FEIR Consistency Evaluation has been prepared for the Project in compliance with CEQA and Local Guidelines. Under this process, an Evaluation is prepared for each subsequent proposed action to determine whether the potential impacts of a project were anticipated in the Downtown FEIR. On August 31, 2015, such a Consistency Evaluation was prepared by AECOM on behalf of Civic San Diego. This Consistency Evaluation made the following findings:

1. New information of substantial importance to the Centre City Redevelopment Project has become available that shows the Project will have significant effects related to historical resources that will be substantially more severe than shown in the Downtown FEIR or subsequent addenda to the FEIR;

2. A Supplement to the Downtown FEIR, as amended, is necessary or required;

3. The proposed actions will have a significant effect on the environment, which exceeds those identified and considered in the Downtown FEIR and subsequent addenda to the Downtown FEIR for the Centre City Redevelopment Project; and

4. The proposed actions would have new effects that were not adequately covered in the Downtown FEIR or the addenda to the Downtown FEIR, and therefore, the proposed project is not within the scope of the program approved under the Downtown FEIR and subsequent

addenda listed in Section 6 of this Consistency Evaluation.

The proposed project activities detailed in the above-referenced Consistency Analysis would result in impacts to historical resources that were not adequately addressed in the prior environmental documents. Therefore, this project will require Supplement to the Downtown FEIR under CEQA. Once this Supplement to the Downtown FEIR under CEQA has been prepared, reviewed and certified, the proposed project will comply with Chapter 9 of the Downtown Community Plan.

With the exception of the unavoidable impact to the designated historical resource, the proposed project as a whole promotes the goals and objectives of the applicable land use plan.

2. The proposed development will not be detrimental to the public health, safety and welfare.

The proposed project would remove the existing improvements on the site and construct a high density, 40-story high rise tower of mixed use residential development with street level retail, lobby, associated residential amenities, two and a half levels of underground parking as well as four levels of above grade parking. The 40-story tower will be a concrete framed structure with a window wall system containing five different tones of high performance glass. The above grade parking element will be screened with perforated metal panels with images of the California Theater in its heyday. The 40-story tower will be accompanied by a connected new 9-story tower replacing the current tower on the east portion of the site. The wall surface material for the new 9-story tower will be GFRC (Glass/Fiber Reinforced Concrete) with a finished surface that will look very similar to the original tower. The street level storefronts will have a glass and metal mullion system. Along C Street and 3rd and 4th Avenues, the landscape program will be in support on an urban experience and consistent with the Downtown Community Plan.

The proposed development will be consistent with the Downtown Community Plan once the property is no longer subject to the Employment Required Overlay and once the Supplement to the Downtown FEIR has been certified.

The project site is 25,000 square feet bounded by 4th Avenue to the East (150 ft.), C Street to the South (200 ft.), Third Avenue to the West (100 ft.), and Parcels 2 and 3 to the north of Horton's Addition, Block 16 in the City of San Diego, County of San Diego, State of California, according to Map thereof filed in the County Recorder's Office of the County of San Diego, APN 533-521-04, 533-521-05 and 533-521-08. The construction will be Type 1, fire rated and sprinklered, meeting occupancy classification R1 as required by the California Building Code CBC 2010.

The proposed development complies with the Development Regulations of the Centre City Planned District Ordinance (§156.0310), including the Residential Development Regulations (§156.0310 (g) as they apply to developments containing more than 50 units in terms of Common Outdoor Open Space, Common Indoor Space, Private Open Space and Pet Open Space.

The proposed development complies with the Urban Design Regulations of the Planned District Ordinance (§156.0311), the Performance Standards of the Planned District Ordinance (§156.0312), the Residential Off-Street Parking Space Requirements of the Planned District Ordinance (§156.0313), The proposed project specifically complies with the FAR Bonus Regulations (§156.0309) in that it will provide Affordable Housing, Three-Bedroom Units, a Silver LEED certified Green Building and purchased FAR.

The proposed development complies with all San Diego Municipal Code and Uniform Building Code provisions intended ensure that the public health, safety and welfare are protected and enhanced by this construction.

3. The proposed development will comply with the applicable regulations of the Land Development Code.

The proposed project will construct a high density, 40 story high rise tower of mixed use residential development with street level retail, lobby, associated residential amenities, two and a half levels of underground parking as well as four levels of above grade parking.

The proposed development will comply with the applicable provisions of the Centre City Planned District Ordinance in the following manner. It is located within a Neighborhood Mixed-Use Center that specifically calls for this type of property use. The development will comply with the PDO's FAR regulations that call for a maximum floor area ratio of 10 at this site and with the FAR Bonus regulations for the inclusion of Affordable Housing, Three-Bedroom Units, a Silver LEED certified Green Building and purchased FAR. It will comply with the PDO's Development Regulations pertaining to lot size, minimum building setbacks, building heights, building bulk, building base, ground floor heights, commercial space depth and residential development regulations. It will comply with the PDO's Urban Design Regulations pertaining to building orientation, façade articulation, street level design, pedestrian entrances, transparency, blank walls, tower design, glass and glazing, exterior projecting balconies, rooftops, encroachments into public rights-of-way, building identification, regulations pertaining to historical resources requiring a Site Development Permit, additional standards for residential developments, additional standards for main streets, and urban open space design guidelines. It will comply with the PDO's Off Street Parking and Loading Standards.

The relevant Land Development Code's Planning and Development Regulations for topics not addressed in the Centre City Planned District Ordinance are contained in that Code's Chapter 14 and include: Grading Regulations, Draining Regulations, Landscape Regulations, Parking Regulations, Refuse and Recyclable Materials Storage, Mechanical and Utility Equipment Storage Regulations, Loading Regulations, Building Regulations, Electrical Regulations and Plumbing Regulations. The proposed development will comply with all of these regulations, since a building permit would not be issued without such compliance. Therefore, the proposed development will comply with all applicable regulations of the Land Development Code

(i) Supplemental Findings – Historical Resources Deviation for Substantial Alteration of a Designated Historical Resource

<u>Supplemental Finding (1) There are no feasible measures, including a less environmentally damaging alternative, that can further minimize the potential adverse effects to the designated historical resource.</u>

The existing theater and office building was constructed between 1926 and 1927 and the theater portion was used for movies and vaudeville from 1927 to 1937 and used exclusively for movies from

1937 to 1976. In 1976, Mann Theaters ceased operations due to lack of profitability for an urban single screen movie theater. During the 1980s, the theater functioned as a venue for rock concerts and organ recitals. On June 24, 1990, the Theatre Organ Society of San Diego held their last performance in the Theater entitled "Our Final Curtain." The organ was relocated by its owner soon thereafter and the building has not been used since.

The exterior alterations of the building have been extensive. The theater marquee on the Fourth Avenue façade has been altered four times since 1927 and within the past decade it was removed because of structural instability. The office tower's east façade and south facades have retained their historical appearance from the fourth level and above, but on the lower levels almost all of the windows are gone and the storefronts boarded over. Similar conditions occur on the first two levels of the south façade of the auditorium and on the south and west facades of the fly loft.

All aspects of the building's interior are in a state of disrepair and degradation from lack of use, occupancy by vagrants, rainwater leaks, and other maladies common to abandoned buildings. The theater portion retains some original elements including a small lobby, the main decorated seating area, the curved upper balcony, and intricately carved stage surrounds. Rain water from leaking roofs has caused significant damage to finishes throughout the building. The auditorium has more than a dozen large holes in the ceiling, some larger than ten feet across. The upper floors of the office wing display similar damage.

Base Project The proposed project would remove the existing improvements on the site and construct a new 40-story mixed-use tower with ground floor retail, residential dwelling units and adequate above and below grade parking for both uses. The proposed new facades in a modern vocabulary will provide 400,000 gross square feet of development at this location with multiple parking levels. The 40-story tower would be accompanied by a connected new 9-story tower at the location of the current office tower. Images of the "old California Theater" on perforated metal screens will recall the property's history.

Five less environmentally damaging alternatives, that would minimize the potential adverse effects, have been evaluated.

Alternative 1 *Would remove all existing improvements on the site as proposed in the Base Project, construct the Base Project's 40-story mixed use tower, and construct a connected new 9-story tower with two reconstructed facades replicating the 4th Avenue and C Street facades of that tower at their same locations.* This Alternative would differ from the Base Project by the reconstruction of the 4th Avenue and C Street facades as replicas of those façades now present on the existing 9-story tower.

Alternative 2 *Would removal all existing improvements on the theater portion of the site, construct the Base Project's 40-story mixed use tower at that location, and retain and rehabilitate the 9-story tower building as part of the project.* This Alterative would differ from the Base Project by the retention and rehabilitation of the 9-story tower building as part of the project.

Alternative 3 *Would remove all existing improvements on the theater portion of the site with the exception of the ground floor C Street façade and the decorative elements above, which would be rehabilitated, construct the Base Project's 40-story mixed use tower on the former theater portion of* *the site, and retain and rehabilitate the 9-story tower in place.* This Alternative would differ from the Base Project by the retention and rehabilitation of the ground floor C Street façade and the decorative elements above and the retention and rehabilitation of the 9-story tower building, all as part of the project.

Alternative 4 *Would remove all existing improvements on the theater portion of the site with the exception of the ground floor C Street façade and the decorative elements above, which would be rehabilitated, construct the Base Project's 40-story mixed use tower on the former theater portion of the site, retain and rehabilitate the 9-story tower in place, and create a 20' wide galleria running north and south between the 9-story tower and any new construction to the west of that galleria, creating an open space from the ground level through the ninth floor.* This Alternative would differ from the Base Project by the retention and rehabilitation of the ground floor C Street façade and the decorative elements above, the retention and rehabilitation of the 9-story tower building, and by the construction of a 20' wide 9-story galleria separating the new construction to the west from the retained and rehabilitated 9-story tower.

Alternative 5 *Would rehabilitate all existing improvements on the site in accordance with the Secretary of the Interior's Standards for adaptive re-use as-is with the existing parking. No additional square footage would be added and no changes in the building's massing would occur.* This Alternative would differ from the Base Project by the retention and rehabilitation of all existing improvements on the site in accordance with the Secretary of the Interior's Standards for Rehabilitation for re-use.

Analysis of the Base Project and the Five Alternatives

The architectural plans for the Base Project were developed by the Project Architects, Martinez + Cutri Corporation, and included site plans, floor plans, elevations and sections, The HABS documentation for the existing building was prepared by Heritage Architecture and Planning and included site plans, floor plans, elevations and sections. The construction cost estimates for the Base Project and each alternative were prepared by BCCI and Clark Construction, two California licensed construction firms with historical and new property experience. The Economic Feasibility Analysis for the Base Project and each alternative was prepared by The London Group and was based upon information provided by the above listed parties. Such information included feedback on the scope, schedule and budget for purposes of the economic feasibility analysis. An architectural graphic, illustrating the five project alternatives was prepared by the Project Architects and is attached to these Findings as Exhibit A.

Economic Analysis of the Base Project by the London Group

The Base Project assumes the entire site is cleared and a new mixed-use project is developed. The project includes 310,651 square feet of net saleable residential (282 for-sale condominiums) and 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is $201.5 million. The total estimated costs of construction are estimated at $175.4 million. **The resulting net profit is $26.1 million.**

Economic Analysis of Alterative 1 by the London Group

Alternative 1 assumes the construction of a new mixed-use project that includes the reconstruction of the 4th Avenue and C Street facades of the existing 9-story office tower. The project design is the same as the Base Project and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $2.1 million to a total of $177.5 million. The resulting net profit is calculated at $24.0 million. **This is a reduction in total profit of 7.9% or 2.1 million, compared to the Base Project.**

Economic Analysis of Alternative 2 by the London Group

Alternative 2 assumes that the theater portion is cleared from the site, but the existing 9-story tower is renovated to accommodate residential use. The project design is the same as the Base Project and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $8.2 million to a total of $183.6 million. The resulting net profit is calculated at $17.9 million. **This is a reduction in total profit of 31.4% or 8.2 million, compared to the Base Project.**

Economic Analysis of Alternative 3 by the London Group

Alternative 3 assumes a new mixed use development with the C Street façade retained and rehabilitated and the 9-story office tower retained and rehabilitated. The project design is the same as the Base Project and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $11.6 million to a total of $187.1 million. The resulting net profit is calculated at $14.4 million. **This is a reduction in total profit of 44.6% or 11.6 million, compared to the Base Project.**

Economic Analysis of Alternative 4 by the London Group

Alternative 4 assumes a new mixed use development with the C Street façade retained and rehabilitated or reconstructed if necessary with retail on the ground floor and the 9-story office tower retained and rehabilitated or reconstructed if necessary. This alternative also includes a 20-foot wide galleria between the 9-story tower and any new construction to the west of that galleria. This project design comprises a total of 647,000 square feet and includes seven levels of underground parking, with 310,923 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail,

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased $216.2 million. The result is a project loss of $14.5 million. **This is a reduction in total profit of 156% or 40.6 million, compared to the Base Project.**

Economic Analysis of Alternative 5 by the London Group

Alternative 5 assumes the full renovation of both the California Theater and the existing 9-story office tower. In this scenario, the buildings are restored to their original uses as an approximately 2,000 seat theater, 29,350 square feet of office and 4,640 square feet of retail. Total costs of rehabilitation and construction are estimated at $40.8 million.

Research conducted by the Economic Feasibility Analysts on the reuse and rehabilitation of the former theater portion for theater purposes demonstrates that operation of the rehabilitated theater, not counting the cost of rehabilitation, would result in, at best, a break-even proposition, since most theaters struggle to cover their operating costs and these locations depend largely on donations to cover their deficits, and the building rehabilitation and construction costs at this site have been estimated at $40.8 million. Therefore, a developer who would invest in rehabilitating the theater would not receive any value or significant income to recover the money spent on rehabilitation.

The analysis of the office component demonstrates a value of $4.9 million for 29,350 square feet of space at $168 per square foot. These rents and sale value are in-line with what is being achieved for better quality Class B office space in downtown San Diego. The retail component is estimated to have a value of approximately $2.1 million for the 4,640 square foot space at $446 per square foot. These rents and sale values are in line with better quality, and located, retail in downtown San Diego.

With these values combined, Alternative 5 has a total value of approximately $7.0 million, which is based solely on the office and retail components. **Based on the estimated construction costs of $40.8 million, the result is a loss of negative $33.8 million.**

As demonstrated by the Economic Feasibility Analysis, attached to these Findings as Exhibit B and discussed above, only the Base Project is economically feasible, resulting in a net profit of $26.1 million, which would be realized over a three year investment period.

Conclusions of Economic Alternatives by The London Group

Alternative 1 adds significant costs to the Base Project without enhancing the revenue or value of the development. Overall, it diminishes the financial returns of the Base Project, which is already marginally financeable due to relatively low profit margins.

Alternatives 2, 3 and 4 add an order-of-magnitude higher costs that result in single-digit returns (Alternative 4 is negative). These three alternatives result in a project that is not economically feasible, nor financeable. There is not enough profit margin or financial "cushion" for private investors or other sources of capital to achieve their required minimum rates of return. Nor does it give investors and lenders a comfort level that the development could sustain cost overruns or revenue corrections (e.g.

lower sales prices). Based on their performing feasibility analyses and consulting services on hundreds of real estate projects, it is the London Group's experience that a mixed-use redevelopment project requires the margin on gross revenue to exceed 10% for a project to be economically feasible and to qualify for project financing. In fact, in their experience, even a 10% margin may not be financeable. None of Alternatives 2, 3, or 4 achieve a margin on gross revenue of 10% and, as a result, are not economically feasible alternatives.

Alternative 5 would comply with the Downtown Community Plan's Mitigation Measure *HIST- A.1-3* by rehabilitating the property in accordance with the Secretary of the Interior's Standards, but this Alternative would result in a net loss of $33.8 million, which demonstrates that a subsidy of at least an equal amount would be required just to break even on the investment. As a result, Alternative 5 is not economically feasible.

All of the Alternatives to the Base Project have been evaluated and determined to be economically infeasible in varying degrees; therefore, Supplemental Finding (1) can be made.

Supplemental Finding (2) This deviation (from standard protective historical resource regulations) is the minimum necessary to afford relief and accommodate the development and all feasible measures to mitigate for the loss of any portion of the historical resource have been provided by the applicant.

This deviation from the standard protective historical resource regulations is the minimum necessary to afford relief and accommodate the development of the site in accordance with the density and other provisions of the Planned District Ordinance. Feasible measures to mitigate for the Base Project's demolition of the subject buildings will be implemented pursuant to the Centre City Mitigation, Monitoring and Reporting Program (MMRP), which requires the preparation of a Documentation Program consisting of a Historic American Building Survey (HABS) for the property prior to the start of demolition. This Documentation Program will include professional quality photo documentation of all four elevations with close ups of selected elements and measured drawings of the exterior elevations. Supplemental Finding (2) can be made.

Supplemental Finding (3) The denial of the proposed development would result in economic hardship to the owner. For the purpose of this finding, "economic hardship" means there is no reasonable beneficial use of a property and it is not feasible to derive a reasonable economic return from the property.

As demonstrated by the Economic Feasibility Analysis attached to these Findings as Exhibit B, and discussed above, only the Base Project is economically feasible, resulting in a net profit of $26.1 million, which would be realized over a three year investment period.

Alternative 1 adds significant costs to the Base Project without enlarging the revenue or the value of the development. Alternatives 2 and 3 add an order-of-magnitude higher costs that would result in single-digit returns and Alternative 4's return is negative. Alternative 5 would comply with the Downtown Community Plan's Mitigation Measure *HIST- A.1-3* by rehabilitating the property in accordance with the Secretary of the Interior's Standards, but this Alternative would result in a net loss of $33.8 million, which demonstrates that a subsidy of at least an equal amount would be required just to break even on the investment.

Furthermore, the subject property has been determined to present a public safety hazard of significant proportions. In October of 2009, a Preliminary Structural Study of the property was prepared by Tony Court of A.B. Court & Associates in response to a request from the San Diego City Attorney's Office. The findings of that report were as follows:

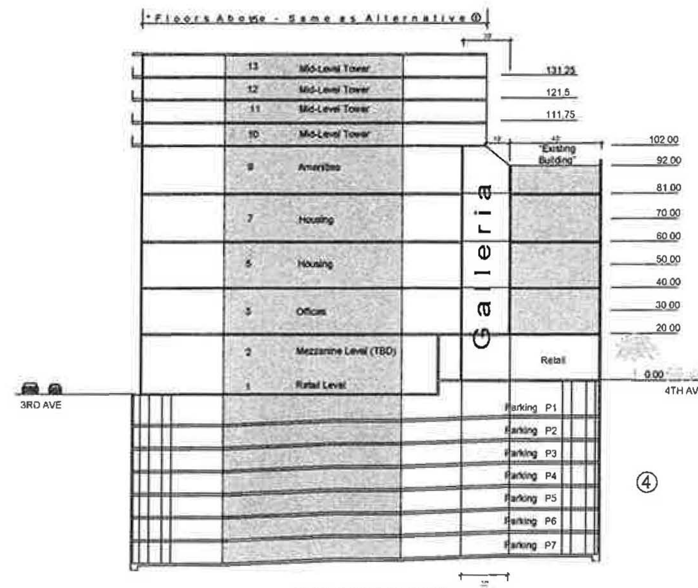
> "The entire facility is in poor, dilapidated and deteriorating condition. The roofing system is in poor condition and leaks extensively, resulting in excessive damage to the interior finishes, particularly in the theater spaces and rental spaces. Power and water systems are not functional."
>
> "The concrete cover over the exposed roof trusses at the auditorium is heavily cracked and spalled, contributing to heavy rusting of the roof structure over the auditorium and resulting in a potentially critical long-term safety issue. The wood framing at the roof and second floor of the retail spaces is rotted in various locations."
>
> "Several external features are deteriorated to the point of presenting significant near term falling hazards. These elements include the cast stone ornamentation, delaminating stucco plaster, the marquee, the water tank at the roof of the office tower, the URM parapets at the retail space and the lights structures and other appendages around the building."

After the Easter earthquake in April of 2010, new damage was visible on the property and the engineering firm of Flores Lund was retained to provide an updated structural evaluation on the property. That report, dated March 11, 2011, found that "The majority of the building complex contains deterioration due to elements exposed to the environment and damage due to previous earthquakes. This structure has the maximum potential for collapse." As the result of these evaluations and other factors, this entire building complex has been ordered vacated, closed and secured pursuant to orders from the City's public safety officials.

The denial of the proposed project could also result in economic hardship to the owner and the City of San Diego if the collapse predicted by the structural engineers occurs before the building can be removed.

Without the Base Project and demolition of the historic resource, the owner would be unable to develop the property and would suffer loss of investment and great economic hardship. There is no reasonable beneficial use of the property that preserves the historic resource. Supplemental Finding (3) can be made.

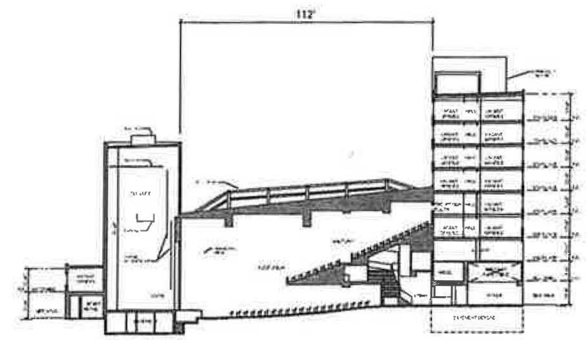
EXHIBIT A



WEST-EAST SECTION

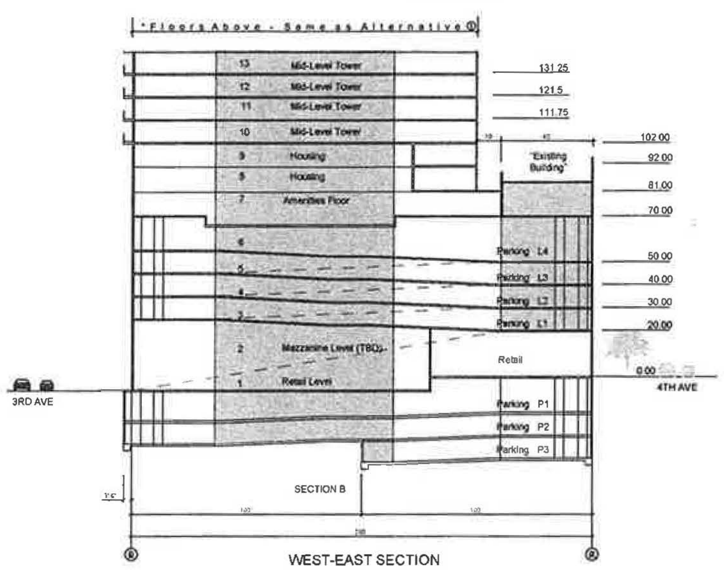
Alternative ④

Clear theater portion of the site (with the exception of the old ground floor façade on C St) and retain and rehabilitate existing 9-story tower portion of the old California Theater office tower and add a mixed-use tower with ground floor retail, residential dwelling units, and adequate u/g parking for both uses (from the base project). Additionally, rehabilitate the southern theater façade on C St, recreating the appearance of historic façade's first floor for new retail purposes. The main residential entrance lobby still occurs off 4th Ave., and further a 20 ft. wide galleria, 92 ft. high, would occur off C Street. Amenities for the new residential units above are similar to the Base Project.



Alternative ⑤

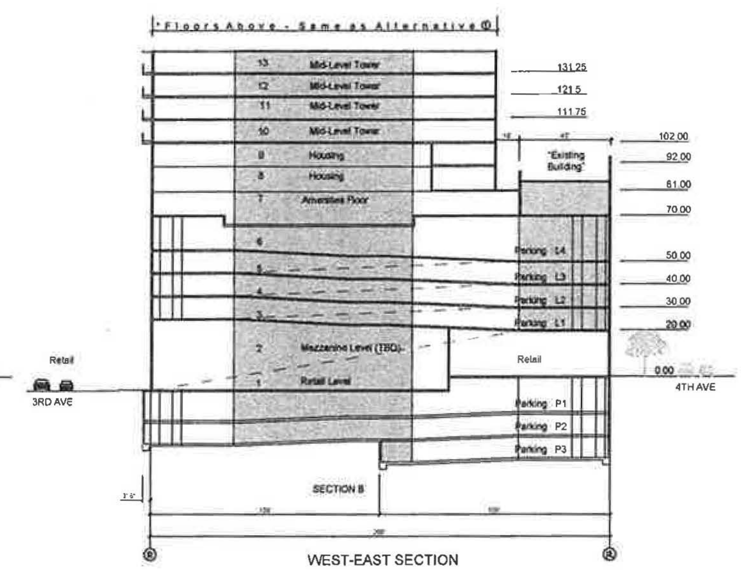
Complete rehabilitation of theater and tower portions of the existing structure for adaptive reuse as-is with existing parking. No additional square footage or changes to existing building massing. This alternative contemplates utilizing the theater space as a functioning theater. The office tower portion will be modified for the highest and best use based on our market analysis.



WEST-EAST SECTION

Alternative ③

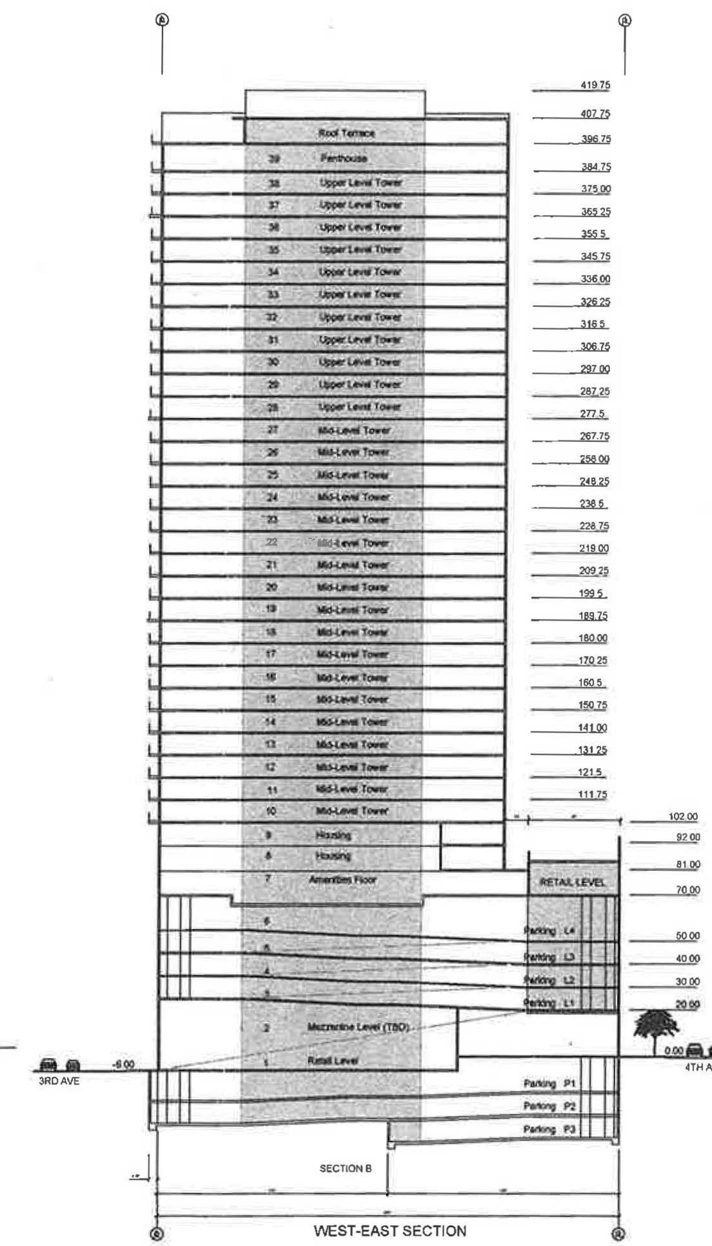
Clear theater portion of the site (with the exception of the old ground floor façade on C St) and retain and rehabilitate existing 9-story tower portion of the old California Theater office tower and add a mixed-use tower with ground floor retail, residential dwelling units, and adequate u/g and a/g parking for both uses (from the base project). Additionally, rehabilitate the southern theater façade on C St and recreate appearance of historic façade above grade with retail on ground floor and decorative elements above, all of which would be covering the a/g parking inside. Similar to Alternative 2, the rehabilitated tower structure massing will include a/g parking, the main residential entrance lobby and amenities for the new residential units above.



WEST-EAST SECTION

Alternative ②

Clear theater portion of the site and retain and rehabilitate existing 9-story tower portion of the old California Theater office tower and add a mixed-use tower with ground floor retail, residential dwelling units, and adequate u/g and a/g parking for both uses (from the base project). The rehabilitated tower structure massing will include a/g parking, the main residential entrance lobby and amenities for the new residential units above.



WEST-EAST SECTION

Alternative ①

Clear entire site and construct a new mixed-use tower as proposed in the Base Project with a reconstruction of the 4th Avenue and C Street facades from the existing 9-story office tower on that portion of the newly constructed building.

CIVIC SAN DIEGO SUBMITTAL - CALIFORNIA THEATER SITE - RESUBMITTAL

MARTINEZ + CUTRI
CORPORATION
Architecture • Planning
Interiors • Urban Design

402 W Broadway Suite 2600
San Diego, CA 92101
Tel (619) 233-4857 Fax (619) 233-7417

REVISIONS:

1122 FOURTH AVENUE

SLOAN CAPITAL 301 N. CANON DRIVE, SUITE 205
BEVERLY HILLS, CA. 90210

SEAL:

SHEET TITLE:
DEVELOPMENT ALTERNATIVES

DATE: AUGUST 21, 2015

SCALE: $\frac{1}{32}$"=1'-0"

DRAWN BY:

JOB No.: 3110

SHEET No.: A1.21

SHEET OF

EXHIBIT B

THE LONDON GROUP
Realty Advisors

September 8, 2015

Mr. Cyrus Sanandaji
Overture
301 N. Canon Drive, Suite 205
Beverly Hills, CA 90210

Via email: cyrus@presidiobay.com

RE: Economic Alternative Analysis for 1122 4th Street

The London Group Realty Advisors has completed an economic analysis of the five development options pertaining to the California Theater site at 1122 4th Street in San Diego, CA ("Subject Property"). The purpose of this analysis is to analyze the impact on the profitability of the project and how each alternative impacts the reasonable use of land.

We have analyzed the proposed Base Project as well as five alternatives for development of the property, which includes:

- **The Base Project**: Clear the entire site and develop a new mixed-use project.
- **Alternative 1**: Clear entire site and construct a new mixed-use tower as proposed in the Base Project with a reconstruction of the 4th Avenue and C Street façades from the existing 9-story office tower on that portion of the newly constructed building.
- **Alternative 2**: Develop a new mixed-use development; clear the California Theater but renovate the existing nine-story tower.
- **Alternative 3**: Clear the theater portion of the site with the exception of the ground floor C Street façade, retain and rehabilitate the C Street façade with retail on the ground floor and decorative elements above, retain and rehabilitate the 9-story office tower, and add a new 40-story mixed-use tower with ground floor retail, residential dwelling units and adequate parking.
- **Alternative 4**: Clear the theater portion of the site with the exception of the ground floor C Street façade, retain and rehabilitate, or reconstruct if necessary, the C Street façade with retail on the ground floor, retain and rehabilitate, or reconstruct if necessary, the 9-story

office tower, add a new 40-story mixed-use tower with ground floor retail, residential dwelling units and adequate parking. Create a 20' wide galleria running north and south between the rear façade of the 9-story office tower and any new construction to the west of that galleria, creating open space from the ground level through the ninth floor.

- **Alternative 5**: Perform a full renovation of California Theater and the nine-story office tower and restore to original historical uses.

Conclusions of Economic Alternatives

We analyzed the project performance of the Base Project that is proposed for the Subject Property. The Base Project assumes that the entire site is cleared for a new mixed-use development. The development is planned to include 310,651 square feet of net saleable residential (282 for-sale condominiums) and 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

We have assumed a project duration of three years for the Base Project as well as Alternatives 1 through 4. The total estimated costs of construction are estimated at $175.4 million, which includes a land acquisition of $5 million. The total estimated net sales revenue is approximately $201.5 million. The resulting net profit is estimated at $26.1 million, which is realized over the three year investment period.

Alternative 1 adds significant costs to the Base Project without enhancing the revenue or value of the development. Overall, it diminishes the financial returns of the Base Project, which is already marginally financeable due to relatively low profit margins.

Alternatives 2, 3 and 4 add an order-of-magnitude higher costs that result in single-digit returns (Alternative 4 is negative). These three alternatives result in a project that is not economically feasible, nor financeable. There is not enough profit margin, or financial "cushion," for private investors and other sources of capital to achieve their required minimum rates of return. Nor does it give investors and lenders a comfort level that the development could sustain cost overruns or revenue corrections (e.g. lower sale prices). Based on performing feasibility analyses and consulting services on hundreds of real estate projects, it is our experience that a mixed-use redevelopment project requires the margin on gross revenue to exceed 10% for a project to be economically feasible and to qualify for project financing. In fact, in our experience, even a 10% margin may not be financeable. None of Alternatives 2, 3 or 4 achieve a margin on gross revenue of 10% and, as a result, are not economically feasible alternatives.

Alternative 5 is a full renovation of the California Theater and existing 9-story office tower. This development alternative results in a net loss of $33.8 million, which demonstrates that a subsidy of at least an equal amount is required just to break even on the investment. As a result, Alternative 5 is not economically feasible.

The table on the following page demonstrates the impact on project profit for each of the five development alternatives.

Summary of Scenarios
1122 4th Street

Base Project

Clear Entire Site and Develop New Mixed-Use Project

# Units:	**282**
Residential S.F.	310,651
Retail S.F.	10,900
Total Net Useable S.F.	321,551
Net Development Profit	**$26,081,666**

Alternative 1

New Mixed-Use Development That Includes Reconstruction of the 4th Avenue and C Street Facades from the Existing 9-Story Office Tower

# Units:	**282**
Residential S.F.	310,651
Retail S.F.	10,900
Total Net Useable S.F.	321,551
Net Development Profit	**$24,031,627**
Difference From Base Project ($)	**-$2,050,039**
Difference From Base Project (%)	**-7.9%**

Alternative 2

New Mixed-Use Development; Clear CA Theater; Renovate Existing 9-Story Tower

# Units:	**282**
Residential S.F.	310,651
Retail S.F.	10,900
Total Net Useable S.F.	321,551
Net Development Profit	**$17,904,459**
Difference From Base Project ($)	**-$8,177,207**
Difference From Base Project (%)	**-31.4%**

Alternative 3

New Mixed-Use Development; Retain and Rehabilitate C Street Façade; Retain and Rehabilitate 9-Story Office Tower

# Units:	**282**
Residential S.F.	310,651
Retail S.F.	10,900
Total Net Useable S.F.	321,551
Net Development Profit	**$14,446,930**
Difference From Base Project ($)	**-$11,634,736**
Difference From Base Project (%)	**-44.6%**

Alternative 4

New Mixed-Use Development; Retain, Rehabilitate or Reconstruct C Street Façade and 9-Story Office Tower; Create 20' Wide Galleria

# Units:	**282**
Residential S.F.	310,923
Retail S.F.	10,900
Total Net Useable S.F.	321,823
Net Development Profit	**($14,534,455)**
Difference From Base Project ($)	**-$40,616,121**
Difference From Base Project (%)	**-155.7%**

Alternative 5

Full Renovation of CA Theater and Existing 9-Story Tower

Theater:	2,000 seats
Office	29,350
Retail	4,640
Net Development Profit	**-$33,780,804**
Difference From Base Project ($)	**-$59,862,470**
Difference From Base Project (%)	**-229.5%**

Source: The London Group Realty Advisors

Approach to Analysis

To determine the impact to the project, we prepared a financial proforma for the five alternatives and compared the performance to the Base Project proforma. For each of the proforma inputs we were furnished with both revenue and cost assumptions, as well as project timelines, as follows:

- 6 months for permits
- 24 months for construction
- 6 months of disposition and unit sales
- Construction costs are provided by BCCI
- Market revenues and timing assumptions are provided by Overture
- Affordable housing prices based on 2014 figures from San Diego Housing Commission

The following summarizes the financial proformas we have prepared for analyzing the project, which are included in the Appendix.

Base Project

The Base Project assumes that the entire site is cleared and a new mixed-use project is developed. The project includes 310,651 square feet of net saleable residential (282 for-sale condominiums) and 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is $201.5 million. The total estimated costs of construction are estimated at $175.4 million. The resulting net profit is calculated at $26.1 million.

Alternative 1

Alternative 1 assumes construction of a new mixed-use project that includes reconstruction of the 4th Avenue and C Street facades from the existing 9-story office tower. The project design is the same as the Base Project and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $2.1 million to a total of $177.5 million. The resulting net profit is calculated at $24.0 million. **This is a reduction in total profit of negative 7.9%, or $2.1 million, compared to the Base Project.**

Alternative 2

Alternative 2 assumes that the California Theater is cleared from the site, but the existing 9-story tower is renovated to accommodate residential. The project design is the same as the Base Project

and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $8.2 million to a total of $183.6 million. The resulting net profit is calculated to be $17.9 million. **This is a reduction in total profit of negative 31.4%, or $8.2 million, compared to the Base Project.**

Alternative 3

Alternative 3 assumes a new mixed-use development with the C Street façade retained and rehabilitated and the 9-story office tower retained and rehabilitated. The project design is the same as the Base Project and includes 310,651 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail. The total gross square footage, including parking, is 607,000 square feet.

The total estimated net sales revenue is the same as the Base Project at $201.5 million. However, the estimated construction costs are increased by $11.6 million to a total of $187.1 million. The resulting net profit is calculated to be $14.4 million. **This is a reduction in total profit of negative 44.6%, or $11.6 million, compared to the Base Project.**

Alternative 4

Alternative 4 assumes a new mixed-use development that retains and rehabilitates, or reconstructs if necessary, the C Street façade with retail on the ground floor. The 9-story office tower would also be retained and rehabilitated, or reconstructed if necessary. This alternative also includes a 20-foot wide galleria between the rear façade of the 9-story office building and any new construction to the west of that galleria. This project comprises a total of 647,000 gross square feet and includes seven levels of underground parking. There is also a 20-foot setback between the existing structure and new construction. The project design includes 310,923 square feet of net saleable residential (282 for-sale condominiums) with 10,900 square feet of retail.

The total estimated net sales revenue is estimated to be $201.7 million with total construction costs of approximately $216.2 million. The result is a project loss of $14.5 million. **This is a reduction in total profit of negative 156%, or $40.6 million, compared to the Base Project.**

Alternative 5

Alternative 5 assumes a full renovation of both the California Theater and the existing 9-story office tower. In this scenario, the buildings are restored to their original uses as an approximately 2,000-seat theater, 29,350 square feet of office and 4,640 square feet of retail. Total costs of restoration and construction are estimated at $40.8 million.

In our research of theaters in San Diego and Southern California, we have determined that there is no "sale value" for the theater. That is because there is no positive income that is generated by a theater for investors or owners. At best, operating a theater is a break-even proposition, with most theaters operating at a deficit.

Our research included interviews with theater operators throughout Southern California. Two operators[1], one from a city-owned facility and the other a privately owned non-profit entity, indicated that ticket sales and facility rentals do not typically cover operating costs. These locations depend largely on donations to cover the deficit created from low revenues compared to higher expenses.

Therefore, a developer who would invest in rehabilitating the theater would not receive any value or significant income to recover the money spent on reconstruction. In the case of the California Theater, the loss would be substantial.

Our analysis of the office component demonstrates a value of approximately $4.9 million for the 29,350 square feet of space ($168 per square foot). The rents and sale value are in-line with what is being achieved for the better quality Class B office space in Downtown San Diego.

The retail component is estimated to have a value of approximately $2.1 million for the 4,640 square-foot space ($446 per square foot). The rents and sale value are consistent with the better quality, and located, retail space in Downtown San Diego.

Combined, Alternative 5 has a total value of approximately $7.0 million, which is based solely on the office and retail components. Based on the estimated costs of construction of $40.8 million, the result is a loss of negative $33.8 million.

Should you have any questions regarding this analysis, please contact us.

Sincerely,

Gary H. London

Nathan Moeder

[1] Avo Theater- Vista, CA (Robert Tannenbaum- Theatre Rental and Events Manager) and Segerstrom Center for the Arts - Costa Mesa, CA (Whitney Kofford- Theater Operations)

APPENDIX

Base Project - 1122 4th Street

Clear Entire Site and Develop New Mixed-Use Project

FINANCING	
Loan Amount	$122,798,134
Loan to Value	70%
Interest Rate	6.00%

DEVELOPMENT SUMMARY					
Gross Building S.F.					607,000 S.F.
Bldg Core & Parking		47% of Gross S.F.			285,449
Commercial S.F.					10,900 S.F.
Net Residential S.F.					310,651 S.F.
Market Rate Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	117	93,015	$628,300	$790
2 BR	1,250	92	115,000	$790,314	$632
3 BR	1,522	53	80,645	$954,014	$627
Subtotal Market Rate	**1,102**	**262**	**288,660**	**$751,079**	**$682**
Affordable Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	9	7,155	$235,884	$297
2 BR	1,250	7	8,750	$263,079	$210
3 BR	1,522	4	6,086	$293,982	$193
Subtotal Affordable	**1,100**	**20**	**21,991**	**$257,022**	**$234**
Total/Av. Wt.	**1,102**	**282**	**310,651**	**$716,040**	**$650**
Project Timing					**Months**
Permits					6
Construction					24
Disposition					6
Total (Months)					**36**

CONSTRUCTION BUDGET		Total Cost	Cost Per Gross S.F.	Cost/Unit
Land Acquisition		$5,000,000	$8.24	$17,730
Land Closing Costs		$54,925	$0.09	$195
Hard Costs		$131,324,450	$216.35	$465,690
Soft Costs	17.9%	$23,450,787	$38.63	$83,159
Miscellaneous (Sales office, Market, Opex)		$4,232,971	$6.97	$15,011
Const. Loan Interest		$11,362,772	$18.72	$40,294
Contingency	incl	$0	$0.00	$0.00
Total Project Costs		**$175,425,905**	**$289.00**	**$622,078**
Less: Loan Amount		**$122,798,134**		
Initial Investment:		**$52,627,772**		

INVESTEMENT PERFORMANCE			
Gross Revenue: Market Rate Units		$196,782,713	$751,079 avg price
Gross Revenue: Affordable Units		$5,140,437	$257,022 avg price
Total Gross Revenue		**$201,923,150**	
Sales Commission	2.5%	($5,048,079)	
Other Costs of Sale	0.0%	$0	
Net Residential Revenue		**$196,875,071**	
Retail Revenue		$4,632,500	$425 psf
Total Net Revenue		**$201,507,571**	
Development Costs		($175,425,905)	
Net Profit		**$26,081,666**	
Margin on Total Cost		**14.9%**	
Margin on Gross Revenue		**12.6%**	
Equity Investment		$52,627,772	
Return On Investment (ROI)		**50%**	

Source: The London Group Realty Advisors, Overture, SD Housing Commission, Clark Construction

Alternative 1 - 1122 4th Street

New Mixed-Use Development That Includes Reconstruction of the 4th Avenue and C Street Facades from the Existing 9-Story Office Tower

FINANCING	
Loan Amount	$124,233,161
Loan to Value	70%
Interest Rate	6.00%

DEVELOPMENT SUMMARY					
Gross Building S.F.					607,000 S.F.
Bldg Core & Parking		47% of Gross S.F.			285,449
Commercial S.F.					10,900 S.F.
Net Residential S.F.					310,651 S.F.

Market Rate Units	Average Unit Size	# of Units	Total Net Rentable	Sale Price	$/S.F.
1 BR	795	117	93,015	$628,300	$790
2 BR	1,250	92	115,000	$790,314	$632
3 BR	1,522	53	80,645	$954,014	$627
Subtotal Market Rate	**1,102**	**262**	**288,660**	**$751,079**	**$682**

Affordable Units	Average Unit Size	# of Units	Total Net Rentable	Sale Price	$/S.F.
1 BR	795	9	7,155	$235,884	$297
2 BR	1,250	7	8,750	$263,079	$210
3 BR	1,522	4	6,086	$293,982	$193
Subtotal Affordable	**1,100**	**20**	**21,991**	**$257,022**	**$234**
Total/Av. Wt.	**1,102**	**282**	**310,651**	**$716,040**	**$650**

Project Timing	**Months**
Permits	6
Construction	24
Disposition	6
Total (Months)	**36**

CONSTRUCTION BUDGET		Total Cost	Cost Per Gross S.F.	Cost/Unit
Land Acquisition		$5,000,000	$8.24	$17,730
Land Closing Costs		$54,925	$0.09	$195
Hard Costs		$132,951,210	$219.03	$471,458
Soft Costs	17.9%	$23,741,279	$39.11	$84,189
Miscellaneous (Sales office, Market, Opex)		$4,232,971	$6.97	$15,011
Const. Loan Interest		$11,495,559	$18.94	$40,764
Contingency	incl	$0	$0.00	$0.00
Total Project Costs		**$177,475,944**	**$292.38**	**$629,347**
Less: Loan Amount		**$124,233,161**		
Initial Investment:		**$53,242,783**		

INVESTEMENT PERFORMANCE			
Gross Revenue: Market Rate Units		$196,782,713	$751,079 avg price
Gross Revenue: Affordable Units		$5,140,437	$257,022 avg price
Total Gross Revenue		**$201,923,150**	
Sales Commission	2.5%	($5,048,079)	
Other Costs of Sale	0.0%	$0	
Net Residential Revenue		**$196,875,071**	
Retail Revenue		$4,632,500	$425 psf
Total Net Revenue		**$201,507,571**	
Development Costs		($177,475,944)	
Net Profit		**$24,031,627**	
Margin on Total Cost		**13.5%**	
Margin on Gross Revenue		**11.6%**	
Equity Investment		$53,242,783	
Return On Investment (ROI)		**45%**	

Source: The London Group Realty Advisors, Overture, SD Housing Commission, Clark Construction

Alternative 2 - 1122 4th Street

New Mixed-Use Development; Clear CA Theater; Renovate Existing 9-Story Tower

FINANCING	
Loan Amount	$128,522,179
Loan to Value	70%
Interest Rate	6.00%

DEVELOPMENT SUMMARY					
Gross Building S.F.					607,000 S.F.
Bldg Core & Parking		47% of Gross S.F.			285,449
Commercial S.F.					10,900 S.F.
Net Residential S.F.					310,651 S.F.
Market Rate Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	117	93,015	$628,300	$790
2 BR	1,250	92	115,000	$790,314	$632
3 BR	1,522	53	80,645	$954,014	$627
Subtotal Market Rate	**1,102**	**262**	**288,660**	**$751,079**	**$682**
Affordable Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	9	7,155	$235,884	$297
2 BR	1,250	7	8,750	$263,079	$210
3 BR	1,522	4	6,086	$293,982	$193
Subtotal Affordable	**1,100**	**20**	**21,991**	**$257,022**	**$234**
Total/Av. Wt.	**1,102**	**282**	**310,651**	**$716,040**	**$650**

Project Timing	**Months**
Permits	6
Construction	24
Disposition	6
Total (Months)	**36**

CONSTRUCTION BUDGET		Total Cost	Cost Per Gross S.F.	Cost/Unit
Land Acquisition		$5,000,000	$8.24	$17,730
Land Closing Costs		$54,925	$0.09	$195
Hard Costs		$137,813,280	$227.04	$488,700
Soft Costs	17.9%	$24,609,506	$40.54	$87,268
Miscellaneous (Sales office, Market, Opex)		$4,232,971	$6.97	$15,011
Const. Loan Interest		$11,892,431	$19.59	$42,172
Contingency	incl	$0	$0.00	$0.00
Total Project Costs		**$183,603,113**	**$302.48**	**$651,075**
Less: Loan Amount		**$128,522,179**		
Initial Investment:		**$55,080,934**		

INVESTEMENT PERFORMANCE			
Gross Revenue: Market Rate Units		$196,782,713	$751,079 avg price
Gross Revenue: Affordable Units		$5,140,437	$257,022 avg price
Total Gross Revenue		**$201,923,150**	
Sales Commission	2.5%	($5,048,079)	
Other Costs of Sale	0.0%	$0	
Net Residential Revenue		**$196,875,071**	
Retail Revenue		$4,632,500	$425 psf
Total Net Revenue		**$201,507,571**	
Development Costs		($183,603,113)	
Net Profit		**$17,904,459**	
Margin on Total Cost		**9.8%**	
Margin on Gross Revenue		**8.7%**	
Equity Investment		$55,080,934	
Return On Investment (ROI)		**33%**	

Source: The London Group Realty Advisors, Overture, SD Housing Commission, Clark Construction

Alternative 3 - 1122 4th Street

New Mixed-Use Development; Retain and Rehabilitate C Street Façade; Retain and Rehabilitate 9-Story Office Tower

FINANCING	
Loan Amount	$130,942,449
Loan to Value	70%
Interest Rate	6.00%

DEVELOPMENT SUMMARY					
Gross Building S.F.					607,000 S.F.
Bldg Core & Parking	47% of Gross S.F.				285,449
Commercial S.F.					10,900 S.F.
Net Residential S.F.					310,651 S.F.
Market Rate Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	117	93,015	$628,300	$790
2 BR	1,250	92	115,000	$790,314	$632
3 BR	1,522	53	80,645	$954,014	$627
Subtotal Market Rate	**1,102**	**262**	**288,660**	**$751,079**	**$682**
Affordable Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	9	7,155	$235,884	$297
2 BR	1,250	7	8,750	$263,079	$210
3 BR	1,522	4	6,086	$293,982	$193
Subtotal Affordable	**1,100**	**20**	**21,991**	**$257,022**	**$234**
Total/Av. Wt.	**1,102**	**282**	**310,651**	**$716,040**	**$650**

Project Timing	Months
Permits	6
Construction	24
Disposition	6
Total (Months)	**36**

CONSTRUCTION BUDGET		Total Cost	Cost Per Gross S.F.	Cost/Unit
Land Acquisition		$5,000,000	$8.24	$17,730
Land Closing Costs		$54,925	$0.09	$195
Hard Costs		$140,556,920	$231.56	$498,429
Soft Costs	17.9%	$25,099,442	$41.35	$89,005
Miscellaneous (Sales office, Market, Opex)		$4,232,971	$6.97	$15,011
Const. Loan Interest		$12,116,383	$19.96	$42,966
Contingency	incl	$0	$0.00	$0.00
Total Project Costs		**$187,060,641**	**$308.17**	**$663,336**
Less: Loan Amount		**$130,942,449**		
Initial Investment:		**$56,118,192**		

INVESTEMENT PERFORMANCE			
Gross Revenue: Market Rate Units		$196,782,713	$751,079 avg price
Gross Revenue: Affordable Units		$5,140,437	$257,022 avg price
Total Gross Revenue		**$201,923,150**	
Sales Commission	2.5%	($5,048,079)	
Other Costs of Sale	0.0%	$0	
Net Residential Revenue		**$196,875,071**	
Retail Revenue		$4,632,500	$425 psf
Total Net Revenue		**$201,507,571**	
Development Costs		($187,060,641)	
Net Profit		**$14,446,930**	
Margin on Total Cost		**7.7%**	
Margin on Gross Revenue		**7.0%**	
Equity Investment		$56,118,192	
Return On Investment (ROI)		**26%**	

Source: The London Group Realty Advisors, Overture, SD Housing Commission, Clark Construction

Alternative 4 - 1122 4th Street

New Mixed-Use Development; Retain, Rehabilitate or Reconstruct C Street Façade and 9-Story Office Tower; Create 20' Wide Galleria

FINANCING	
Loan Amount	$151,349,905
Loan to Value	70%
Interest Rate	6.00%

DEVELOPMENT SUMMARY					
Gross Building S.F.					647,000 S.F.
Bldg Core & Parking	50% of Gross S.F.				325,177
Commercial S.F.					10,900 S.F.
Net Residential S.F.					310,923 S.F.
Market Rate Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	115	91,425	$634,730.00	$798
2 BR	1,250	90	112,500	$798,403	$639
3 BR	1,522	53	80,645	$963,778	$633
Subtotal Market Rate	**1,103**	**258**	**284,570**	**$759,420**	**$689**
Affordable Units	**Average Unit Size**	**# of Units**	**Total Net Rentable**	**Sale Price**	**$/S.F.**
1 BR	795	11	8,745	$235,884	$297
2 BR	1,250	8	10,000	$263,079	$210
3 BR	1,522	5	7,608	$293,982	$193
Subtotal Affordable	**1,098**	**24**	**26,353**	**$257,053**	**$234**
Total/Av. Wt.	**1,103**	**282**	**310,923**	**$716,666**	**$650**
Project Timing					**Months**
Permits					6
Construction					24
Disposition					6
Total (Months)					**36**

CONSTRUCTION BUDGET		Total Cost	Cost Per Gross S.F.	Cost/Unit
Land Acquisition		$5,000,000	$7.73	$17,730
Land Closing Costs		$54,925	$0.08	$195
Hard Costs		$163,691,000	$253.00	$580,465
Soft Costs	17.9%	$29,230,526	$45.18	$103,654
Miscellaneous (Sales office, Market, Opex)		$4,232,971	$6.54	$15,011
Const. Loan Interest		$14,004,729	$21.65	$49,662
Contingency	incl	$0	$0.00	$0.00
Total Project Costs		**$216,214,150**	**$334.18**	**$766,717**
Less: Loan Amount		**$151,349,905**		
Initial Investment:		**$64,864,245**		

INVESTEMENT PERFORMANCE			
Gross Revenue: Market Rate Units		$195,930,422	$759,420 avg price
Gross Revenue: Affordable Units		$6,169,266	$257,053 avg price
Total Gross Revenue		**$202,099,688**	
Sales Commission	2.5%	($5,052,492)	
Other Costs of Sale	0.0%	$0	
Net Residential Revenue		**$197,047,196**	
Retail Revenue		$4,632,500	$425 psf
Total Net Revenue		**$201,679,696**	
Development Costs		($216,214,150)	
Net Profit		**($14,534,455)**	
Margin on Total Cost		**-6.7%**	
Margin on Gross Revenue		**-7.0%**	
Equity Investment		$64,864,245	
Return On Investment (ROI)		**-22%**	

Source: The London Group Realty Advisors, Overture, SD Housing Commission, Clark Construction

Alternative 5 - 1122 4th Street

Full Renovation of CA Theater and Existing 9-Story Tower

THEATER

Theater count is estimated at 2,000 seats.

Based on our research, at best it is a break-even proposition. Ultimately, theaters struggle to cover their operating costs.

Most are also owned by a municipality and instead of receiving revenue from operations, the municipality will subsidize operations and/or will rely on donations.

We have found no instances where there is excess revenue to afford rent payments, or master lease payments, to a landlord.

OFFICE

			Comments
Office SF		29,350	
Occupied SF		26,415	90% Occupancy
Monthly Rent PSF		$1.80	based on Class B space
Gross Annual Rent		570,564	
Less: Op. Ex.	35%	(199,697)	based on Class B bldgs
NOI		370,867	
Cap Rate		7.5%	
Value		**$4,944,888**	
Value PSF		$168	

RETAIL

			Comments
Retail SF		4,640	
Occupied SF		4,176	90% Occupancy
Monthly Rent PSF		$2.75	based on Class B space
Gross Annual Rent		137,808	
Less: Op. Ex.	2.50%	(3,445)	NNN Lease
NOI		134,363	
Cap Rate		6.5%	
Value		**$2,067,120**	
Value PSF		$446	

Project Value		
Theater	$0	
Office	$4,944,888	excludes costs of sale at disposition
Retail	$2,067,120	excludes costs of sale at disposition
Subtotal	$7,012,008	
Less: Project Costs	($40,792,812)	hard costs from BCCI
Net Profit	**($33,780,804)**	

Source: The London Group Realty Advisors

CORPORATE PROFILE

THE LONDON GROUP
Realty Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

To answer these questions we conduct market analysis, feasibility studies, provide financial structuring advice and general economic consulting. Often we 'package' the deal and provide access to capital sources. We also have capabilities in pre-development consulting including asset management and disposition and in providing team coordination, processing and disposition services (packaging and promotion).

The Real Estate & Economic Monitor is a newsletter published by The London Group providing market trend analysis and commentary for the serious real estate investor. The principals of the firm, Gary London and Nathan Moeder, bring acknowledged credentials and experience as advisors and analysts to many successful projects and assignments throughout North America. It is available and regularly updated on the World Wide Web at the following address: http://www.londongroup.com/.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff.

Clients who are actively investigating and investing in apartment projects, retail centers and commercial projects have regularly sought our advice and financial analysis capabilities.

We have analyzed, packaged and achieved capital for a wide variety of real estate projects including hotels, office buildings, retail shopping centers and residential housing communities. We are generalists with experiences ranging from large scale, master planned communities to urban redevelopment projects, spanning all land uses and most development issues. These engagements have been undertaken throughout North America for a number of different clients including developers, investors, financial institutions, insurance companies, major landholders and public agencies.

702 Ash Street, Suite 101, San Diego, CA 92101
619-269-4012 • www.londongroup.com