



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:

REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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To: Kimberly Brandt, Director of Community Development
City of Newport Beach

From: Kathleen Head
Tim Bretz

Date: September 17, 2012

Subject: Land Residual, Economic Benefits & Public Revenues Analyses

In accordance with your request, Keyser Marston Associates, Inc. (KMA) prepared the following financial analyses related to the approximately 4.26-acre site that is currently occupied by the Newport Beach City Hall (City Hall Site):

1. KMA analyzed the following development alternatives:
 - a. "Alternative A" is a 92 unit apartment complex with 6,000 square feet of commercial space and 260 ground-level parking spaces.
 - b. "Alternative B" is a 99 unit apartment complex with 248 ground-level parking spaces.
2. KMA prepared land residual analyses to provide the City of Newport Beach (City) with the following valuation estimates for both development alternatives:
 - a. The value of the fee interest in the City Hall Site is estimated for the two alternative development scopes.
 - b. The City wishes to include an identified mix of public improvements in the development scope. The costs associated with these improvements will reduce the land value supported by the City Hall Site. The resulting "Land Value Offset" is estimated under low and high cost estimates provided by the City staff.

- c. The City may wish to convey the City Hall Site to a developer in the form of a long-term ground lease. The annual ground lease income that could potentially be received by the City is estimated under two different ground lease rate assumptions.
3. KMA prepared a residential expenditures analysis to project the direct, indirect and induced economic impacts that the two development scenarios could potentially have on businesses in Newport Beach through the purchases of goods and services.
4. KMA prepared a public revenues analysis to project the possessory interest tax and sales tax revenues that could potentially be received by the City from the two development scenarios.

EXECUTIVE SUMMARY

Land Residual Analysis

The results of the land residual analysis can be summarized as follows:

Alternative A

1. The gross land value supported by Alternative A is estimated at \$18.17 million, or approximately \$98 per square foot of land area.
2. The Land Value Offsets are estimated by the City staff at \$5.57 million under the low estimate and \$8.95 million under the high estimate.
3. When the Land Value Offsets are deducted from the gross land value, the resulting net supportable land value is estimated at \$9.22 million to \$12.6 million. This equates to \$50 to \$68 per square foot of land area.
4. To project the annual ground lease income that could potentially be received by the City, KMA applied ground lease rates of 8% and 10% to the net supportable land value. This generates ground lease payments ranging from \$737,800 to \$1.26 million per year.

Alternative B

1. The gross land value supported by Alternative B is estimated at \$19.16 million, or approximately \$103 per square foot of land area.

2. The \$5.57 million and \$8.95 million Land Value Offsets are applied to arrive at estimated net supportable land values.
3. After deducting the Land Value Offsets from the gross land value, the net supportable land value is estimated at \$10.2 million to \$13.59 million. This equates to \$55 to \$73 per square foot of land area.
4. When the 8% and 10% ground lease rates are applied to the net supportable land value, the annual ground lease payments fall within the range of \$816,400 to \$1.36 million per year.

Economic Impact Analysis

KMA estimated the economic impacts that could potentially be generated by the two alternative development scopes. The economic benefits are defined as the direct, indirect and induced expenditures that would be generated by the apartment residents. KMA estimates the annual impacts as follows:

	Alternative A	Alternative B
Direct Expenditures	\$2,069,000	\$2,227,000
Multiplier	1.3	1.3
Total Direct, Indirect and Induced Impacts	\$2,690,000	\$2,895,000

KMA projected the impacts over a 10-year period based on increases at a 3% average annual inflationary rate. Based on this assumption, the total impacts are projected at \$30.84 million for Alternative A and \$33.19 million for Alternative B..

Public Revenues Analysis

KMA projected public revenues that could potentially be received by the City from the two alternative development scopes. KMA estimates the revenues as follows:

	Alternative A	Alternative B
Possessory Interest Taxes	\$117,000	\$124,000
Sales Taxes	15,000	16,000
Total Public Revenues	\$132,000	\$140,000

To arrive at a projection over a 10-year period, KMA escalated the possessory interest tax revenue at the statutory maximum of 2% annually, and the sales tax revenue at a 3% average annual inflationary rate. Based on these assumptions, the public revenues are projected at \$1.45 million under Alternative A and \$1.54 million under Alternative B.

LAND RESIDUAL ANALYSIS

KMA prepared pro forma analyses for the City Hall Site to provide order-of-magnitude estimates of the land value that can be supported by apartment development. This land value was then adjusted to reflect the costs associated with the public improvements currently being considered for inclusion on the City Hall Site. The net supportable land value was converted into annual ground lease payments for the City Hall Site.

The development scopes for Alternatives A and B are very similar. The only differences are:

1. Alternative A includes 92 apartment units while Alternative B includes 99 apartment units; and
2. Alternative A includes 6,000 square feet of commercial space. Alternative B does not include a commercial component.

The pro forma analyses are presented in Appendices A and B. The tables included in the analyses are organized as follows:

- Table 1: Estimated Construction Costs
- Table 2: Stabilized Net Operating Income
- Table 3: Estimated Land Value / Annual Ground Lease Income

The assumptions used in the pro forma analysis are summarized in the following sections of this memorandum.

Estimated Construction Costs

Direct Construction Costs

The direct construction cost estimates are based on the assumption that prevailing wage requirements will not be imposed on the private components of the project. The assumptions are summarized as follows:

1. The site improvement costs are estimated at \$7.00 per square foot of land area. This estimate does not include the costs associated with the proposed public improvements.
2. The ground-level parking costs are estimated at \$10,000 per space.
3. The building costs are estimated at the high end of the range for apartment projects reviewed by KMA in the region. These costs are estimated as follows:
 - a. The residential costs are estimated at \$120 per square foot of gross leasable area; and
 - b. The commercial costs are estimated at \$110 per square foot of gross building area (GBA).
4. A 10% direct cost contingency allowance is provided.

Indirect Construction Costs

The indirect cost estimates are based on industry standard measurements. The assumptions applied in this analysis can be summarized as follows:

1. The architecture, engineering and consulting costs; the taxes, legal and accounting costs; and the developer fee are all based on industry standard percentages of direct costs.
2. The public permits and fees costs are estimated at \$20,000 per residential unit and \$10 per square foot of commercial GBA. The City staff should verify the accuracy of these estimates.
3. The insurance costs are estimated at \$2,500 per residential unit and \$5.00 per square foot of commercial GBA.
4. The marketing and leasing costs are estimated at \$500 per residential unit and \$10.00 per square foot of GBA.
5. An allowance equal to 5% of other indirect costs is provided for soft cost contingencies.

Financing Costs

The financing cost estimates are based on the following assumptions:

1. The construction period is set at 18 months.

- 2. The construction period interest costs are estimated at 7%.
- 3. The loan origination fees are set at 2.0 points, and the financing is based on a 70% loan to value ratio.

The total construction costs are estimated as follows:

	Alternative A	Alternative B
Direct Construction Costs	\$24,644,000	\$25,265,000
Indirect Construction Costs	6,258,000	6,370,000
Financing Costs	3,160,000	3,284,000
Total Construction Costs	\$34,062,000	\$34,919,000
Per Square Foot of GBA	\$220	\$218

Stabilized Net Operating Income

The stabilized net operating income (NOI) estimates are based on the following assumptions.

Revenue

KMA estimated the achievable residential rents based on the following methodology:

- 1. KMA performed a survey of Newport Beach apartment that identified average monthly rents of \$1,990 per unit, or \$2.10 per square foot of gross leasable area.
- 2. The pro forma rents used in this analysis are based on a review of high-end projects in Newport Beach. KMA found that these units are generating rents that are approximately 12% higher than the citywide average.
- 3. KMA applied a 15% premium over this average to reflect the premium associated with new construction.

The resulting rent estimates are presented in the following table:

Unit Type	Square Feet	Monthly Rent	
		Total	Per Square Foot
Townhome			
Two-Bedroom Units	1,300	\$3,510	\$2.70
Three-Bedroom Units	1,500	\$3,975	\$2.65
Flat			
Two-Bedroom Units	1,600	\$4,080	\$2.55
Three-Bedroom Units	1,800	\$4,500	\$2.50

The other revenues included in the analysis are:

1. Laundry and miscellaneous income is estimated at \$15 per residential unit per month.
2. The commercial rents are estimated at \$3.00 per square foot per month on a triple-net basis. This rent falls at the approximate midpoint of the rents found in a survey undertaken by KMA.

Operating Expenses

The residential operating expenses include the following:

1. The general operating expenses are set at \$4,000 per unit.
2. An allowance equal to 5% of the residential effective gross income is provided for property management fees.
3. The possessory interest tax expense is based on the projected assessed value of the project and a 1.1% possessory interest tax rate.
4. A \$150 per unit per year allowance is provided for contributions to a reserve account for future capital repairs.

KMA assumed that the commercial space will be rented on a triple-net basis, which means that the residents are responsible for paying for common area maintenance (CAM) costs. The operating expenses to be incurred by the landlord are:

1. An allowance equal to 5% of the commercial effective gross income is provided for property management costs.

2. Annual contributions to a reserve account for future capital repairs are set at \$.15 per square foot of commercial gross leasable area.

The stabilized NOI for both alternatives are presented in the following table:

	Alternative A	Alternative B
Residential Effective Gross Income	\$4,354,000	\$4,682,600
Commercial Effective Gross Income	194,900	NA
Operating Expenses	(1,347,600)	(1,438,100)
Stabilized NOI	\$3,201,300	\$3,244,500

Estimated Land Value / Annual Ground Lease Income

Supportable Private Investment

The supportable amount of private investment is based on the project's stabilized NOI and the threshold returns being required by investors in the marketplace. KMA estimates the threshold returns for the two alternative development scopes based on the following assumptions:

1. The threshold return for the residential component is set at 6%; and
2. The threshold return for the commercial component is set at 9%.

Estimated Gross Land Value

The gross land value that can be supported by the project is equal to the difference between the estimated construction costs and the amount of private investment that can be obtained. The gross land values for the two alternatives are estimated as follows:

	Alternative A	Alternative B
Stabilized NOI	\$3,201,300	\$3,244,500
Threshold Return on Total Investment	6.1% ¹	6.0%
Supportable Private Investment	\$52,236,000	\$54,075,000
(Less) Estimated Construction Cost	(34,062,000)	(34,919,000)
Estimated Gross Land Value	\$18,174,000	\$19,156,000
Per Square Foot of Land Area	\$98	\$103

Land Value Offsets

The City has identified a variety of public improvements that will be required to be constructed on the City Hall Site. The City staff has prepared low and high cost estimates based on the quality level proposed for the proposed improvements. These estimates are presented in the following table:

	Low Estimate	High Estimate
Main Plaza – Newport & 32 nd Street	\$1,212,000	\$2,360,000
Northern Promenade – City Hall Site (65%)	272,000	576,000
32 nd Street – Newport to Lafayette	1,078,000	2,121,000
Via Malaga Plaza	372,000	773,000
Via Oporto Plaza	523,000	1,008,000
Fire Station Reconstruction (50% of Cost)	2,113,000	2,113,000
Total Land Value Offsets	\$5,570,000	\$8,951,000
Per Square Foot of Land Area	\$30	\$48

Estimated Net Land Value

The net land value for the City Hall Site is equal to the estimated gross land value minus the Land Value Offsets. The resulting net land values for the two alternative development scopes are estimated as follows:

¹ Based on the weighted average of a 6.0% return on the residential component and a 9.0% return on the commercial component.

Land Value Offsets – Low Estimates

	Alternative A	Alternative B
Gross Land Value	\$18,174,000	\$19,156,000
(Less) Land Value Offset	(5,570,000)	(5,570,000)
Net Land Value	\$12,604,000	\$13,586,000
Per Square Foot of Land Area	\$68	\$73

Land Value Offsets – High Estimates

	Alternative A	Alternative B
Gross Land Value	\$18,174,000	\$19,156,000
(Less) Land Value Offset	(8,951,000)	(8,951,000)
Net Land Value	\$9,223,000	\$10,205,000
Per Square Foot of Land Area	\$50	\$55

Annual Ground Lease Income

It is our understanding that the City would like to convey the City Hall site to a private developer in the form of a long-term ground lease. An analysis prepared for the City by the Concord Group in January 2011 estimated that the City would be able to apply a 10% ground lease rate to the property. To provide the City with a range of potential values, KMA applied ground lease rates at 8% and 10%.

The array of annual ground lease payments associated with the two private development scopes, and the two land offset scopes, are summarized in the following table:

Alternative A	8% Ground Lease	10% Ground Lease
<u>Land Value Offset – Low Estimates</u>		
Net Land Value	\$12,604,000	\$12,604,000
Annual Ground Lease Payment	\$1,008,300	\$1,260,400
<u>Land Value Offset – High Estimates</u>		
Net Land Value	\$9,223,000	\$9,233,000
Annual Ground Lease Payment	\$737,800	\$922,300

Alternative B	8% Ground Lease	10% Ground Lease
<u>Land Value Offset – Low Estimates</u>		
Net Land Value	\$13,586,000	\$13,586,000
Annual Ground Lease Payment	\$1,086,900	\$1,358,600
<u>Land Value Offset – High Estimates</u>		
Net Land Value	\$10,205,000	\$10,205,000
Annual Ground Lease Payment	\$816,400	\$1,020,500

ECONOMIC IMPACT ANALYSIS

KMA prepared residential expenditures analyses to project the direct, indirect and induced economic impacts that the two development scenarios will have on businesses in Newport Beach through the purchases of goods and services. The analyses used to estimate the economic impacts are presented in Appendix C.

Direct, Indirect and Induced Economic Impacts

Direct impacts are defined as the economic output generated by the households residing in the apartment development. Indirect and induced impacts are defined as the additional economic activity that is stimulated by those household expenditures.

KMA projects the direct impacts based on the apartment residents' anticipated household income levels. Indirect and induced economic impacts (multiplier effects) are estimated based on a KMA review of RIMS II and IMPLAN multipliers for Orange County.²

Projected Household Income

KMA estimates that the apartment rents will range from \$3,510 to \$4,500 per unit per month. Based on the assumption that the residents will spend an average of 35% of their gross household income on rent, KMA estimates that the residents' household incomes will range from \$120,000 to \$154,000. KMA calculated the weighted average of the projected household incomes at \$142,000.

² RIMS II was developed by the United States Bureau of Economic Analysis. IMPLAN is an economic analysis software package developed by the Minnesota IMPLAN Group

Income Spent on Retail Goods

KMA utilized the 2010 Consumer Expenditure Survey (CES) prepared by the United States Bureau of Labor Statistics (BLS) to estimate the share of household income that is spent on retail goods. Given that the projected weighted average household income of the residents is \$142,000, KMA utilized the CES data group for households earning between \$120,000 and \$149,999.³

KMA aggregated the CES retail expenditure data into the following categories:

1. Food, Grocery and Personal Care Products;
2. Restaurants and Entertainment; and
3. Apparel, Household Operations, Supplies and Furnishings.

To estimate the share of household income that is spent on each of these categories, KMA divided the CES average household income by the aggregated CES expenditures. The resulting share of household income spent on each expenditure type is estimated as follows:

Expenditure Type	Share of Household Income
Food, Grocery & Personal Care Products	5.30%
Restaurants & Entertainment	8.06%
Apparel, Household Operations, Supplies & Furnishings	8.97%
Total Share of Income Spent on Retail Goods	22.33%

As shown in the preceding table, KMA estimates that households earning between \$120,000 and \$149,999 will spend approximately 22.33% of their gross income on the identified retail goods. However, this estimate does not distinguish between expenditures that will occur within Newport Beach and those that will occur outside of Newport Beach.

³ For calculation purposes, the CES uses a household income of \$132,750 for estimating the expenditures of the \$120,000 to \$149,999 group.

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Expenditures within Newport Beach

To estimate the household spending that will occur within Newport Beach, KMA estimated that Newport Beach businesses will capture the following percentages of the expenditures in each category:

1. Households will spend 100% of the “Food, Grocery and Personal Care Products” category expenditures within Newport Beach;
2. Households will spend 75% of the “Restaurants and Entertainment” category expenditures within Newport Beach; and
3. Households will spend 50% of the “Apparel, Household Operations, Supplies and Furnishings” expenditures category within Newport Beach.

The capture rate is estimated by multiplying the share of household income spent on each expenditure category times the percentage of expenditures that are anticipated to occur in Newport Beach. The capture rates applied in this analysis are:

Expenditure Type	Newport Beach Capture Rate
Food, Grocery & Personal Care Products	5.30%
Restaurants & Entertainment	6.05%
Apparel, Household Operations, Supplies & Furnishings	4.49%

Estimated Direct Expenditures

As noted previously, KMA estimates the residents’ weighted average household income at \$142,000. When the Newport Beach capture rates are applied to the household income, the household expenditures that will occur within Newport Beach each year are estimated as follows:

Expenditure Type	Household Expenditures
Food, Grocery & Personal Care Products	\$7,526
Restaurants & Entertainment	\$8,591
Apparel, Household Operations, Supplies & Furnishings	\$6,372
Total Share of Income Spent on Retail Goods	\$22,493

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The resulting direct annual expenditures are estimated as follows:

	Alternative A	Alternative B
Annual Expenditures Per Household	\$22,493	\$22,493
Number of Households	92	99
Total Direct Annual Expenditures	\$2,069,000	\$2,227,000

Estimated Indirect and Induced Impacts

The indirect and induced impacts are estimated by utilizing a multiplier against the direct annual expenditures. Based on RIMS II and IMPLAN multipliers reviewed by KMA, the multiplier is set at 1.3.

Total Direct, Indirect and Induced Impacts

Alternative A

The total direct, indirect and induced impacts generated annually by the Alternative A development scope are estimated as follows:

Total Direct Expenditures	\$2,069,000
Multiplier	1.3
Total Direct, Indirect and Induced Impacts	\$2,690,000

Alternative B

The total direct, indirect and induced impacts generated annually by the Alternative B development scope are estimated as follows:

Total Direct Expenditures	\$2,227,000
Multiplier	1.3
Total Direct, Indirect and Induced Impacts	\$2,895,000

PUBLIC REVENUES ANALYSIS

The KMA public revenues projections are presented in Appendix D. The methodology applied by KMA can be described as follows:

Possessory Interest Tax Revenue

KMA estimated the possessory interest tax revenue that could potentially be received by the City based on the following assumptions:

1. The project value is estimated by capitalizing the stabilized net operating income. The capitalization rate is set at 4.7% for Alternative A and 4.5% for Alternative B.⁴
2. The possessory interest tax rate is set at 1% of the project's assessed value.
3. The City receives 17.15% of the possessory interest tax collected.
4. The assessed value is projected to increase at the statutorily set cap of 2% per year.

Based on the preceding assumptions, the possessory interest tax that could potentially be received by the City is projected as follows:

<u>Possessory Interest Tax Revenue</u>	Alternative A	Alternative B
Annual Revenue	\$117,000	\$124,000
10-Year Projection	\$1,281,000	\$1,358,000

Sales Tax Revenue

KMA used the results of the economics benefits analysis to assist in projecting the sales tax revenue that could potentially be generated by the residents of the apartment development. The other assumptions used in the analysis are:

1. KMA estimates that 20% of the food, grocery and personal care products sales are taxable, and that 100% of the sales in the other categories are taxable.
2. The City receives 1% of the taxable sales revenue generated in Newport Beach.

⁴ The capitalization rate for Alternative A is based on the weighted average of 4.5% for the residential component and 7.5% for the commercial component.

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3. The sales tax revenues are projected to increase at a 3% average annual inflationary rate.

The sales tax revenues projected to be received by the City are presented in the following table:

<u>Sales Tax Revenue</u>	<u>Alternative A</u>	<u>Alternative B</u>
Annual Revenue	\$15,000	\$16,000
10-Year Projection	\$172,000	\$183,000

Total Public Revenue

The total public revenue that could potentially be received by the City is summarized in the following table:

<u>Total Public Revenue</u>	<u>Alternative A</u>	<u>Alternative B</u>
Annual Revenue	\$132,000	\$140,000
10-Year Projection	\$1,453,000	\$1,541,000

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LIMITING CONDITIONS

1. The analyses contained in this document are based, in part, on data provided by secondary sources such as state and local governments, planning agencies and third parties. While KMA believes that these sources are reliable; we cannot guarantee their accuracy.
2. Projections are inherently based on judgment. The projections herein are based on the best information available at the time this document was prepared. However, the actual impacts may vary from these projections.
3. If unforeseen changes occur in the economy, the conclusions contained herein may no longer be valid.
4. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
5. The estimates are based on the information available at this time, as well as KMA's experience with comparable projects. Any changes to costs, development program, or project performance may render the conclusions herein invalid.
6. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, the conclusions contained herein should not be relied upon as the sole input for final business decisions regarding current and future development and planning.

**APPENDIX A
LAND RESIDUAL ANALYSIS
92 APARTMENT UNITS &
6,000 SQUARE FEET COMMERCIAL SPACE
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

APPENDIX A - TABLE 1

**ESTIMATED CONSTRUCTION COSTS
92 APARTMENT UNITS & 6,000 SF COMMERCIAL SPACE
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. <u>Direct Costs</u>				
On-Site Costs	185,718 Sf		\$7.00 /Sf of Land	\$1,300,000
Surface Parking				
Commercial	30 Spaces		\$10,000 /Space	300,000
Residential	230 Spaces		\$10,000 /Space	2,300,000
Building & TI Allowance Costs				
Residential	148,700 Sf of GLA		\$120 /Sf	17,844,000
Commercial	6,000 Sf of GBA		\$110 /Sf	660,000
Contractor/DC Contingency Allow	10.0% Other Direct Costs			2,240,000
Total Direct Costs				\$24,644,000
II. <u>Indirect Costs</u>				
Arch, Engineering & Consulting	8.0% Direct Costs			\$1,972,000
Public Permits & Fees ¹				
Residential	92 Units		\$20,000 /Unit	1,840,000
Commercial	6,000 Sf of GBA		\$10 /Unit	60,000
Taxes, Legal & Accounting	2.0% Direct Costs			493,000
Insurance				
Residential	92 Units		\$2,500 /Unit	230,000
Commercial	6,000 Sf of GBA		\$5.00 /Sf	30,000
Marketing / Leasing				
Residential	92 Units		\$500 /Unit	46,000
Commercial	5,700 Sf of GLA		\$10.00 /Sf	57,000
Developer Fee	5.0% Direct Costs			1,232,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			298,000
Total Indirect Costs				\$6,258,000
III. <u>Financing Costs</u>				
Interest During Construction ²	\$34,062,000 Cost		7.00% Interest	2,146,000
Loan Origination Fees ³	\$46,931,000 Loan		2.00 Points	939,000
Reserves				75,000
Total Financing Costs				\$3,160,000
IV. <u>Total Construction Cost</u>	154,700 Sf		\$220 /Sf	\$34,062,000

¹ The estimate should be verified by the City staff.

² Assumes a 18 month construction period and a 60% average outstanding balance.

³ Based on a 70% loan to value ratio. The value is calculated based on a 4.5% capitalization rate.

APPENDIX A - TABLE 2

**STABILIZED NET OPERATING INCOME
92 APARTMENT UNITS & 6,000 SF COMMERCIAL SPACE
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. <u>Residential Rental Income</u> ¹			
Townhome: 2-Bdrm @ 1,300 Sf	13 Units @	\$3,510 /Month	\$547,600
Townhome: 3-Bedrm @ 1,500 Sf	12 Units @	\$3,975 /Month	572,400
Flat: 2-Bdrm @ 1,600 Sf	34 Units @	\$4,080 /Month	1,664,600
Flat: 3-Bdrm @ 1,800 Sf	33 Units @	\$4,500 /Month	1,782,000
Laundry/Miscellaneous Income	92 Units @	\$15 /Month	16,600
Gross Income			\$4,583,200
(Less) Vacancy & Collection Allowance	5.0% Gross Income		(229,200)
Residential Effective Gross Income			\$4,354,000
II. <u>Commercial Rental Income</u>			
Rental Income	5,700 /Sf of GLA	\$3.00 /Sf	\$205,200
(Less) Vacancy & Collection Allowance	5.0% Gross Income		(10,300)
Commercial Effective Gross Income			\$194,900
III. <u>Operating Expenses</u>			
Residential			
General Operating Expenses	92 Units @	\$4,000 /Unit	\$368,000
Property Management	5% Residential Effective Gross Income		217,700
Property Taxes ²	92 Units @	\$8,016 /Unit	737,500
Reserves Deposits	92 Units @	\$150 /Unit	13,800
Commercial Space			
Management	5% Commercial Effective Gross Income		9,700
Reserve for Capital Repairs	5,700 /Sf of GLA	\$0.15 /Sf	900
Total Operating Expenses	92 Units @	(\$12,166) /Unit	(\$1,347,600)
IV. <u>Stabilized Net Operating Income</u>			\$3,201,300

¹ Based on KMA market research. Rents range from \$2.50 to \$2.70/Sf of GLA.

² Based on a 4.5% capitalization rate and a 1.1% property tax rate.

APPENDIX A - TABLE 3

ESTIMATED LAND VALUE / ANNUAL GROUND LEASE INCOME
 92 APARTMENT UNITS & 6,000 SF COMMERCIAL SPACE
 CITY HALL SITE
 NEWPORT BEACH, CALIFORNIA

I. <u>Supportable Private Investment</u>			
Stabilized Net Operating Income	See APPENDIX A - TABLE 2	\$3,201,300	
Threshold Return on Total Investment ¹		6.1%	
Total Supportable Private Investment			\$52,236,000
II. Total Construction Cost			
	See APPENDIX A - TABLE 1		\$34,062,000
III. <u>Estimated Gross Land Value</u>			
	185,718 Sf of Land	\$98 /Sf of Land	\$18,174,000
IV. <u>Land Value Offsets</u> ²			
		<u>Low Estimate</u>	<u>High Estimate</u>
Main Plaza - Newport & 32nd Street		\$1,212,000	\$2,360,000
Northern Promenade - City Hall Site Only (65%)		272,000	576,000
32nd Street - Newport to Lafayette		1,078,000	2,121,000
Via Malaga Plaza		372,000	773,000
Via Oporto Plaza		523,000	1,008,000
Fire Station Reconstruction (50% of Cost)		<u>2,113,000</u>	<u>2,113,000</u>
Total Land Value Offsets		\$5,570,000	\$8,951,000
V. <u>Net Land Value / Ground Lease Income</u>			
Net Land Value		\$12,604,000	\$9,223,000
Per Square Foot of Land Area	185,718 Sf of Land	\$68	\$50
Ground Lease Income			
Annual Ground Lease Rate	8% of Net Land Value	\$1,008,300	\$737,800
Annual Ground Lease Rate	10% of Net Land Value	\$1,260,400	\$922,300

¹ Based on the weighted average of a 6.0% return on the residential component and a 9.0% return on the commercial component.

² Based on preliminary estimates provided by the City. These estimates should only be used on an order-of-magnitude basis.

**APPENDIX B
LAND RESIDUAL ANALYSIS
99 APARTMENT UNITS
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

APPENDIX B - TABLE 1

ESTIMATED CONSTRUCTION COSTS
99 APARTMENT UNITS
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA

I. <u>Direct Costs</u>				
On-Site Costs	185,718 Sf		\$7.00 /Sf of Land	\$1,300,000
Residential Surface Parking	248 Spaces		\$10,000 /Space	2,480,000
Residential Building Costs	159,900 Sf of GLA		\$120 /Sf	19,188,000
Contractor/DC Contingency Allow	10.0% Other Direct Costs			2,297,000
Total Direct Costs				\$25,265,000
II. <u>Indirect Costs</u>				
Arch, Engineering & Consulting	8.0% Direct Costs			\$2,021,000
Public Permits & Fees ¹	99 Units		\$20,000 /Unit	1,980,000
Taxes, Legal & Accounting	2.0% Direct Costs			505,000
Insurance	99 Units		\$2,500 /Unit	248,000
Marketing / Leasing	99 Units		\$500 /Unit	50,000
Developer Fee	5.0% Direct Costs			1,263,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			303,000
Total Indirect Costs				\$6,370,000
III. <u>Financing Costs</u>				
Interest During Construction ²	\$34,919,000 Cost		7.00% Interest	2,200,000
Loan Origination Fees ³	\$50,470,000 Loan		2.00 Points	1,009,000
Reserves				75,000
Total Financing Costs				\$3,284,000
IV. <u>Total Construction Cost</u>	159,900 Sf		\$218 /Sf	\$34,919,000

¹ The estimate should be verified by the City staff.

² Assumes a 18 month construction period and a 60% average outstanding balance.

³ Based on a 70% loan to value ratio. The value is calculated based on a 4.5% capitalization rate.

APPENDIX B - TABLE 2

STABILIZED NET OPERATING INCOME
 99 APARTMENT UNITS
 CITY HALL SITE
 NEWPORT BEACH, CALIFORNIA

I. <u>Residential Rental Income</u> ¹			
Townhome: 2-Bdrm @ 1,300 Sf	14 Units @	\$3,510 /Month	\$589,700
Townhome: 3-Bedrm @ 1,500 Sf	13 Units @	\$3,975 /Month	620,100
Flat: 2-Bdrm @ 1,600 Sf	37 Units @	\$4,080 /Month	1,811,500
Flat: 3-Bdrm @ 1,800 Sf	35 Units @	\$4,500 /Month	1,890,000
Laundry/Miscellaneous Income	99 Units @	\$15 /Month	17,800
Gross Income			\$4,929,100
(Less) Vacancy & Collection Allowance	5.0% Gross Income		(246,500)
Residential Effective Gross Income			<u>\$4,682,600</u>
II. <u>Operating Expenses</u>			
General Operating Expenses	99 Units @	\$4,000 /Unit	\$396,000
Property Management	5% Residential Effective Gross Income		234,100
Property Taxes ²	99 Units @	\$8,011 /Unit	793,100
Reserves Deposits	99 Units @	\$150 /Unit	14,900
Total Operating Expenses	99 Units @	(\$12,161) /Unit	<u>(\$1,438,100)</u>
IV. <u>Stabilized Net Operating Income</u>			<u>\$3,244,500</u>

¹ Based on KMA market research. Rents range from \$2.50 to \$2.70/Sf of GLA.

² Based on a 4.5% capitalization rate and a 1.1% property tax rate.

APPENDIX B - TABLE 3

ESTIMATED LAND VALUE / ANNUAL GROUND LEASE INCOME
 99 APARTMENT UNITS
 CITY HALL SITE
 NEWPORT BEACH, CALIFORNIA

I. <u>Supportable Private Investment</u>				
Stabilized Net Operating Income	See APPENDIX B - TABLE 2		\$3,244,500	
Threshold Return on Total Investment			6.0%	
Total Supportable Private Investment				\$54,075,000
II. Total Construction Cost				
	See APPENDIX B - TABLE 1			\$34,919,000
III. <u>Estimated Gross Land Value</u>				
	185,718 Sf of Land	\$103 /Sf of Land		\$19,156,000
IV. <u>Land Value Offsets</u>¹				
			<u>Low Estimate</u>	<u>High Estimate</u>
Main Plaza - Newport & 32nd Street			\$1,212,000	\$2,360,000
Northern Promenade - City Hall Site Only (65%)			272,000	576,000
32nd Street - Newport to Lafayette			1,078,000	2,121,000
Via Malaga Plaza			372,000	773,000
Via Oporto Plaza			523,000	1,008,000
Fire Station Reconstruction (50% of Cost)			<u>2,113,000</u>	<u>2,113,000</u>
Total Land Value Offsets			\$5,570,000	\$8,951,000
V. <u>Net Land Value / Ground Lease Income</u>				
Net Land Value			\$13,586,000	\$10,205,000
Per Square Foot of Land Area	185,718 Sf of Land		\$73	\$55
Ground Lease Income				
Annual Ground Lease Rate	8% of Net Land Value		\$1,086,900	\$816,400
Annual Ground Lease Rate	10% of Net Land Value		\$1,358,600	\$1,020,500

¹ Based on preliminary estimates provided by the City. These estimates should only be used on an order-of-magnitude basis.

**APPENDIX C
ECONOMIC IMPACT ANALYSIS
APARTMENT ALTERNATIVES
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

APPENDIX C - TABLE 1

**ECONOMIC IMPACT ANALYSIS
92 APARTMENT UNITS & 6,000 SF COMMERCIAL SPACE
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. Share of Income Spent on Retail Goods - Consumer Expenditure Survey, 2010¹

Imputed Average Household Income of CES Income Group \$132,750

Expenditure Type	Expenditures	Share of HH Income	% Spent in NB	NB Capture Rate
Food, Grocery and Personal Care Products	\$7,040	5.30%	100%	5.30%
Restaurants and Entertainment	10,706	8.06%	75%	6.05%
Apparel, Household Operations, Supplies & Furnishings	11,914	8.97%	50%	4.49%
Total	\$29,660	22.33%		15.84%

II. Estimated Annual Expenditures Per Household

Projected Household Income³ \$142,000

Expenditure Type	Projected HH Income	NB Capture Rate	Household Expenditures in NB
Food, Grocery and Personal Care Products	\$142,000	5.30%	\$7,526
Restaurants and Entertainment	142,000	6.05%	8,591
Apparel, Household Operations, Supplies & Furnishings	142,000	4.49%	6,376
Total Annual Direct Expenditures Per Household			\$22,493

III. Total Direct Expenditures

Direct Expenditures Per Household	\$22,493
Number of Households	92
Total Direct Expenditures	\$2,069,000

IV. Direct, Indirect & Induced Impacts

Total Direct Expenditures	\$2,069,000
Multiplier ⁴	1.30

Total Direct, Indirect & Induced Impacts \$2,690,000

¹ KMA utilized Consumer Expenditure Survey (CES) data for household incomes between \$120,000 and \$149,999.

² Per the CES. The CES labels households as consumer units.

³ The projected household income is based on a weighted average of the estimated household incomes of the apartment residents. KMA assumes that the residents will spend 35% of their household income on rent.

⁴ Based on a KMA review of indirect and induced multipliers from IMPLAN and RIMS.

APPENDIX C - TABLE 2

**ECONOMIC IMPACT ANALYSIS
99 APARTMENT UNITS
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. Share of Income Spent on Retail Goods - Consumer Expenditure Survey, 2010¹

Imputed Average Household Income of CES Income Group \$132,750

Expenditure Type	Expenditures	Share of HH Income	% Spent in NB	NB Capture Rate
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Apparel, Household Operations, Supplies & Furnishings	142,000	4.49%	6,376
Total Annual Direct Expenditures Per Household			\$22,493

III. Total Direct Expenditures

Direct Expenditures Per Household	\$22,493
Number of Households	99
Total Direct Expenditures	\$2,227,000

IV. Direct, Indirect & Induced Impacts

Total Direct Expenditures	\$2,227,000
Multiplier ⁴	1.30

Total Direct, Indirect & Induced Impacts \$2,895,000

¹ KMA utilized Consumer Expenditure Survey (CES) data for household incomes between \$120,000 and \$149,999.

² Per the CES. The CES labels households as consumer units.

³ The projected household income is based on a weighted average of the estimated household incomes of the apartment residents. KMA assumes that the residents will spend 35% of their household income on rent.

⁴ Based on a KMA review of indirect and induced multipliers from IMPLAN and RIMS.

**APPENDIX D
PUBLIC REVENUES ANALYSIS
APARTMENT ALTERNATIVES
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

APPENDIX D - TABLE 1

**ESTIMATED ANNUAL PUBLIC REVENUES
92 APARTMENT UNITS & 6,000 SF COMMERCIAL SPACE
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. Possessory Interest Tax Calculation

Total Assessed Value	\$68,511,000
Possessory Interest Tax Rate (Base Levy)	<u>1.00%</u>
Total Possessory Interest Tax Revenue	\$685,110
City Share of Base Levy	17.15%

Estimated Annual Possessory Interest Tax Revenue	\$117,000
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II. Sales Tax Calculation

<u>Taxable Sales</u>	<u>Spending Per HH</u>	<u>Number of HHs</u>	<u>Taxable Sales Rate</u>	<u>Taxable Sales</u>
Food, Grocery and Personal Care Products	\$7,526	92	20%	\$137,000
Restaurants and Entertainment	\$8,591	92	100%	\$790,000
Apparel, Household Operations, Supplies & Furnishings	\$6,376	92	100%	<u>\$587,000</u>
Total Taxable Sales				\$1,514,000
City Share of Taxable Sales				1.0%

Estimated Annual Sales Tax Revenue	\$15,000
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III. Total Estimated Annual Public Revenues	\$132,000
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APPENDIX D - TABLE 2

**ESTIMATED ANNUAL PUBLIC REVENUES
99 APARTMENT UNITS
CITY HALL SITE
NEWPORT BEACH, CALIFORNIA**

I. Possessory Interest Tax Calculation

Total Assessed Value	\$72,100,000
Possessory Interest Tax Rate (Base Levy)	<u>1.00%</u>
Total Possessory Interest Tax Revenue	\$721,000
City Share of Base Levy	17.15%

Estimated Annual Possessory Interest Tax Revenue	\$124,000
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II. Sales Tax Calculation

<u>Taxable Sales</u>	<u>Spending Per HH</u>	<u>Number of HHs</u>	<u>Taxable Sales Rate</u>	<u>Taxable Sales</u>
Food, Grocery and Personal Care Products	\$7,526	99	20%	\$147,000
Restaurants and Entertainment	\$8,591	99	100%	\$851,000
Apparel, Household Operations, Supplies & Furnishings	\$6,376	99	100%	<u>\$631,000</u>
Total Taxable Sales				\$1,629,000
City Share of Taxable Sales				1.0%

Estimated Annual Sales Tax Revenue	\$16,000
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III. Total Estimated Annual Public Revenues	\$140,000
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