

Feasibility Analysis

for the

Hollister Catalyst Projects

Prepared for the

**HOLLISTER DOWNTOWN
ASSOCIATION**



Conley Consulting Group

MAY 2008

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311 Oak Street, Suite 110
Oakland, CA 94607

www.conley-group.com

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INTRODUCTION

A. Description of Assignment

The Conley Consulting Group (CCG), in conjunction with and under subcontract to RBF, is pleased to present this evaluation of downtown revitalization opportunities for the City of Hollister (City). This report is based on our findings of existing conditions impacting revitalization opportunities for Hollister (transmitted previously), examines the economic feasibility of four proposed catalyst projects, and recommends an economic frame work for future revitalization efforts to come.

B. Caveats and Limitations

Conley Consulting Group, (CCG) has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Such information was compiled from a variety of sources deemed to be reliable, including state and local government, planning agencies, real estate brokers, and other third parties. Although CCG believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties. Further, no guarantee is made as to the possible effect on development of current or future federal, state, or local legislation including environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions that were developed using currently available economic data, project specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While CCG believes that these sources are reliable, we cannot guarantee their accuracy.

2. The analysis assumes the current economic slowdown does not deepen into either a local or national recession. In particular, it assumes that the paralysis that exists in capital markets in Spring 2008 is not prolonged, and normal lending practices resume for both residential and commercial development. If an unforeseen change occurs in the economy, or if the current slowdown worsens, the conclusions contained herein may no longer be valid.

3. The development cost information made available by local sources to CCG for the analysis of the catalyst projects has been deemed reliable, but has not been independently verified. In particular we note the uncertainty involved with preservation and adaptive reuse of historic structures, and note that additional allowances are appropriate to reflect this uncertainty.

C. Report Organization

Following this introductory section, which is Section I, this report is organized as follows:

Section II. Summarizes the conclusions for each catalyst project

Section III. Describes background information on each catalyst project

Section VI. Describes the feasibility of each of the catalyst projects

SUMMARY OF CONCLUSIONS

Today, downtown Hollister generates only moderate levels of economic activity. Hollister residents conduct much of their economic activity, including shopping, outside of the downtown. Spending by the employees of Hollister businesses is also modest. As a consequence, downtown does not support strong real estate rents and sales values. These modest revenue levels impact the feasibility of downtown development projects, such as the proposed catalyst projects.

The catalyst projects illustrate some of the challenges and opportunities for downtown revitalization in Hollister, as described below:

Activity Generators: Both the proposed Pendergrass Hotel and the rehabbed Granada Theatre have the potential to attract residents and visitors to the downtown for entertainment, dining and shopping. By serving as downtown activity generators, these projects have the potential to complement downtown revitalization efforts. There is not enough information available at this time to judge the economic feasibility of these projects. It may be presumed that a range of financial assistance will be needed to realize the adaptive reuse of these buildings.

Sally Street Project: The economic feasibility of this residential and retail mixed use project is constrained by current housing market conditions in Hollister and throughout the nation. Locally, Hollister does not have a well developed market for market rate multifamily residential units. At the time this report was being prepared national credit market conditions for housing development were severely constrained, such that even in the strongest markets there is limited construction financing for new housing development. In the future, when the credit market conditions return to normal levels, we expect that Hollister will still support relatively modest condominium pricing. Recent comparable condominium sales have been priced below the cost of new construction. Thus, in the near to mid term, housing in the downtown should be developed as apartments, or as affordable housing. A requirement for significant public subsidy should be assumed.

The Plaza: Under current market conditions, there is a small feasibility gap for this mixed use office and retail project. A relatively small subsidy, or a relatively small increase in market rents is sufficient to make this project economically feasible. A phased development approach might be used to limit risk and subsidy requirements. Uses that attract residents to the downtown, like tax preparation, insurance and small law firms, would complement the downtown revitalization strategy.

I. CATALYST PROJECTS

The Catalyst Projects were developed jointly by the Hollister Downtown Association and RBF Consulting to illustrate the range of revitalization activities that are desired and/or likely to occur in the near to mid term. The projects are:

- The Pendergrass Hotel (historic rehab)
This historic rehab project was chosen as a catalyst because of locally expressed interest in developing a new hotel within the Downtown.
- The Granada Theatre (historic rehab and reuse)
This reuse project has historical significance and would serve as a cultural venue to attract both residents and visitors to the City of Hollister.
- The Sally Street Project (new mixed use construction)
The Sally Street project, a triangular site near the train station, was chosen as a catalyst project to demonstrate the feasibility of changing from an industrial use to a mixed use development.
- The Plaza (new mixed use construction)
This project located at 4th Street and San Benito was chosen because it is currently a vacant parcel in the heart of the Downtown and would be expected to serve as a gathering space for locals.

For the new construction projects, CCG has prepared a financial feasibility analysis based on comparable projects. These analyses test the ability to support project capital investment requirements with project generated revenues. If project revenues are adequate to support project costs given market standard return requirements for development, the project is termed financially feasible, and it is reasonable to assume that the project will be developed given sufficient market opportunity and land use approvals. If project generated revenues do not support development costs, there is an economic feasibility gap, and an external subsidy is needed before it is reasonable to assume that the project will be developed.

II. FEASIBILITY ANALYSIS

A. Pendergrass Hotel

The Pendergrass catalyst project includes renovation of a historic building. At completion, current plans include ground floor retail and 28 hotel rooms on the upper floors. The current property owner has experience with historic renovation projects and is the source of the construction cost estimates used in this analysis. Estimated rehab construction costs are \$600,000 (\$21,429/room) for the hotel and \$400,000 (\$50/SF) for the non-hotel space, based on a rehab scenario including interior resurfacing improvements; new fire sprinkler, plumbing system and heating systems, and installation of modern communications wiring throughout the building (see Table 1). The developer will contract with an experienced hotel operator to manage the boutique hotel project upon completion of the rehab. CCG has assumed that the hotel operator will bear costs related to furniture, fixtures and equipment, which are not available at this time. Total hard costs are estimated at \$1 million for this catalyst project.

An allowance for indirect costs is made at 36% of hard costs based on CCG's experience with comparable projects and includes architecture and engineering, permit and other governmental fees, construction period property taxes, pre-opening expenses, marketing, and taxes. Because this is a rehab project, CCG assumed a 10% general contingency for this project, compared to the conventional 5% appropriate for new construction projects.

Total hard and soft development costs are estimated at \$1,450,000.

CCG estimates that this development could support a construction loan of approximately \$900,000, sized at 65% of total development costs. The remaining capital costs would need equity support. If the renovations were done to standards approved by California's Historic Preservation Office (CHPO) this project would qualify for historic tax credits. To calculate the value of the potential equity from tax credit investors, CCG estimates that eligible expenses would be equal to 90% of the total development costs (exclusive of financing and marketing costs). The tax credit investor would pay 90% of the value of the credit, which is equal to 20% of the eligible costs. CCG estimates that the hotel catalyst project could generate almost \$250,000 of eligible historic tax credit equity. The remaining \$290,000 is the required equity investment.

Financing Plan:

The conceptual development cost estimate in this analysis is based on the following financing plan:

Conventional Loan:	\$872,000
Required equity	335,000
HPTC equity:	<u>\$249,000</u>
Total investment	\$1,456,000
Per room (28 rms)	\$52,000

Any request for local tax subsidy should be evaluated against an informed understanding of the proposed project. Hotel generated Transient occupancy tax

revenues are a common source of hotel operating subsidies, while redevelopment fund must be used to subsidize capital costs.

Required Room Revenue:

One extremely simplified measure of financial feasibility for a hotel is that is likely to be feasible at average room rates equal to \$1 for every \$1,000 of investment. Given the cost schedule above, the required average room rate target for the Hollister hotel would be \$52/night. This modest average rate would allow for significant seasonality in occupancy rates.

The definition of a marketing concept and designation of the operating entity is necessary before operating revenues from the Pendergrass Hotel can be projected. This step is required to determine whether revenues are adequate to support the required capital investment, which is the test of economic feasibility. Roughly speaking these capital costs would require average daily revenue of \$52/room. A full market study would be needed to verify if that room rate was achievable, given a defined market concept.

B. The Granada Theatre

The Granada Theatre is a historic two, story, 300 seat cinema with a single auditorium. It is currently leased to the San Benito Stage Company and operated for live theatrical and musical performances. To date, limited improvements to the building have been made largely on an ad hoc and volunteer basis. As a downtown catalyst project, this building would be renovated into a fully equipped, watertight, performing arts theatre with the addition of backstage dressing rooms, rest rooms and an orchestra pit.

Founded in 1999, San Benito Stage Company hosts four shows yearly geared towards different audiences: 1) children ages 8 to 16, 2) youth ages 13 to 18, 3) a summer musical for all ages, and, 4) a play comedy held and hosted at a local restaurant. Each performance is held Friday thru Sunday for two weeks (6 nights), with a cast of 30 – 50 individuals. The performances are almost entirely sold out (\$12 and \$15 tickets for children and adults, respectively) through word of mouth marketing, with the exception of a few seats on opening night. These performances attract largely Hollister residences. Volunteers, local businesses, and residents support the operations of the San Benito Stage Company. These theatre performances are an asset to the community and they help attract local residences to downtown Hollister.

At this time, a rehab plan and rehab cost estimate are not available for the Granada Theater project. In this next section, CCG summarizes key points on what steps to consider in the rehabilitation of a theatre project, and later discusses the Fox Theatre - a renovated theatre project – as an illustrative example that contributed to the Redwood City revitalization efforts.

1. Theatre Rehabilitation – Steps to Consider

This section outlines steps for renovation of historic theatres, based on experience with other similar projects, nationwide¹.

¹ Steps were summarized from an article written in [Main Street News](#), September 2006.

a. Find an Interested & Invested Party

Sponsors for the Granada Theatre project have already been identified. However, an additional good resource for the Granada Theatre renovation is the League of Historic American Theatres (LHAT), which is a broad membership of developers and other professionals who rehabilitate theatres throughout the United States. This network could be very useful in terms of building support for the project and receiving expert advice on the dos and don'ts of theatre rehabilitation projects.

b. Safety Matters

The second step is to ensure that major safety issues are addressed. This consultant has not reviewed inspection reports on the Granada Theatre. An inspection report outlines building safety issues and can provide a prioritized list of necessary repairs. These steps and the repairs should be addressed as soon as possible.

c. Build a team

A successful theatre rehabilitation project requires forming a team that includes individuals passionate about preserving the building and the theatre as well as individuals who are motivated by the economic impacts of renovating the Theatre in downtown Hollister. The purpose of this task is to build allies within the community that can support these efforts. The team should involve the California State Historic Preservation office as soon as possible, particularly if historic rehabilitation tax credits will be used as a finance source for the project. Additional team members should include professionals such as architects, accountants, a real estate attorney (preferably) or an attorney familiar with tax credit and non-profit entities, and an expert in arts programming. The architect should be familiar with historic preservation and eligibility requirements for historic preservation tax credits. In some cases, the theatre renovation project may require individuals with more specialized expertise such as a decorative arts advisor if there are significant interior details that need specialized skills or perhaps a tax credit consultant.

d. Be aware of the Politics

It is quite common that distressed local theatres are not on the political radar screen. As part of the rehabilitation process, there should be public discourse around the potential economic impact and other benefits to the community of rehabilitating the theatre project. Additionally, City officials should be invited to attend any major mile stone events as well as recognized in their support. Build political awareness of the projects potential by sharing stories of other successful theatre renovations and its direct impact on resident and non-resident attraction to the downtown area.

e. Determine the Theatre Type (film, live performances, and/or music)

In its current state, the Grenada Theatre is operated as a live performance theatre. It would be very useful to commission a market study to determine the potential for theatre shows in the region. This study should include estimates of regional theatre tickets sales according to the various types of theatre uses and the number of options for each theatre use within the region. Currently the Grenada Theatre's operator rents the space

from the owner and produces original performances four times annually. In its current state, the Grenada Theatre operates as a combination of rental and production space, which is common practice for facilities of this type.

f. Develop a Business Plan

A business plan that describes how the project will be operated, managed, and marketed is a key step. It also should include a financial analysis that incorporates a sources and uses budget (including major financing sources) and an operating pro forma.

g. Financing

Once the projects development costs are determined both financing options and the fundraising efforts can be under way. Several financing sources such as the federal historic tax credits have specific requirement that must be accommodated in the initial planning process. Ideally a rehabilitation project such as the Grenada Theatre would involve a full time or part time experienced and skilled capital campaign manager who would develop a fundraising strategy and who would develop a fundraising strategy and who could line up significant funding sources early in the process. This would be helpful before unveiling the project completely to the public. Financing theatre rehabilitation projects is always challenging and generally it will involve combining funds from many sources: community support, corporations, foundations, local and state government, Community Development Block Grants, loans, tax credit equity, browns field mitigation grants, and tax increment financing.

Some of these sources are described below:

Historic Preservation Tax Credits

In order to qualify for historic rehabilitation tax credits a project would need to be both eligible for the National Register of Historic Places as well as an income-generating project. The Historic Preservation Tax Credit (HPTC) program awards a 20 percent credit for qualifying rehabilitation expenses for historic building rehabilitation projects. The rehabilitation expenses must be equal to or greater than the adjusted basis of the building or \$5,000 to qualify. In order to apply credits to a project there generally needs to be a non-profit and or government sponsor who partners with a for-profit entity who can use the credits. There are a few restrictions with HPTC:

Historic Preservation Tax Credits cannot be used in conjunction with tax exempt financing, including tax increment financing.

- The building must be retained for the long term by the entity who receives the credits.
- Typically tax credit investors can not allow the historic building to be used as collateral for financing because of the requirement to maintain long term ownership by the tax credit investors. Thus, there may be a limitation regarding collateralization financing.

New Market Tax Credits

New Markets Tax Credit program was intended to encourage business development in underserved communities. In order to qualify a City must determine if a building is located in a Census tract in which the median family income is 80 percent or less than that of the metropolitan area or the state, whichever is less. Based on Census Tract 2000 and HUD MSA data, the Granada Theatre could qualify for this type of financing. The New Market Tax Credit is higher at 39% than the 20% HPTC.

2. Fox Theatre, Redwood City, California

The renovated Fox Theater in Redwood City is a model for how a similar project can contribute to downtown revitalization. Michael Monte and John Anagnostou acquired and began restoring the historic, 1460 seat Fox Theatre in 1998. The Redwood City Fox Theatre was originally built for both Vaudeville and cinema use, and was placed on the National Register of Historic Places in 1993. The restored theater includes the main auditorium, rest rooms, and dressing rooms. The original design incorporated a Moorish style interior and a gothic style exterior, which has been preserved. In addition, a new 300 seat Little Fox auditorium was constructed to appear as if it was a part of the original complex. The Little Fox is programmed for use as a music venue as well as for civic meetings.

The developers are active in City revitalization efforts, and see improvement of the downtown as vital to the success of the Fox and vice versa. Renovation of the Fox Theater started 8 years after initial acquisition. During this time the Downtown Precise Plan was adopted to define and encourage public development objectives for the downtown. Today, other successful projects in the downtown help attract residents from the Peninsula and beyond to Redwood City including residential, commercial, and other entertainment uses. Financial details of the Redwood City Renovation project are not available.

The experience of other communities demonstrates that a Theatre Renovation project has the potential to provide an important anchor use and attract people to Hollister downtown, a key revitalization objective. Successful renovation of the Granada Theatre will require a close partnership between the property owner, the community, and an experienced entity to act as the project manager.

C. Sally Street Project

The Sally Street catalyst project is a proposed new development project that includes 17,500 square feet of retail space, 12 retail parking spaces, 58 residential units, 87 residential parking spaces, and a courtyard. The development plan includes two-levels of residential units located above podium parking on the back end of the site and one level located above retail on the street frontage.

Estimated total development costs for the Sally Street catalyst project are \$27.8 million (see Table 2). The estimated costs for the retail component are \$160/SF (inclusive of tenant improvement allowance) and the construction costs for the residential component is approximately \$200,000/unit. Parking construction costs are estimated at \$26,250/stall.

CCG assumes utilities will be available to the site. CCG estimates that the site work would cost \$7.50/SF². The estimated total hard costs are approximately \$17.7 million.

The indirect cost allowance for the retail and residential uses reflect the higher permit and fees, legal and marketing costs for a residential development. CCG estimates an indirect cost allowance for the retail and residential components at 21% and 24%, respectively. CCG also assumes an 18 month construction period, a construction loan fee at 2%, and an 8% interest rate. Total financing costs are estimated at roughly \$1.2 million.

Despite the current turmoil in capital markets and particularly for ownership residential, this analysis assumes that the residential units are developed as condominiums. The supportable average sales price is estimated based on the limited multifamily for sale comparable data available. According to local experts, residents in this market prefer the relatively affordable single family homes over the market rate multifamily for sale homes.

To test the impact of making units affordable, we evaluated the supportable affordable sales prices. At the 80% of Area Median Income (AMI) level³, with a 10% down payment a family of three can afford a home purchase price of \$435,323. This price and the price affordable to households of 60% or 50% AMI are above the market price for condominiums. Thus, we suggest that any near term for sale housing development be targeted to affordable households or for special needs like seniors. CCG estimates \$15,370,000 in gross residential sales proceeds.

To value the retail component, CCG estimates achievable rents on a per square footage basis. CCG assumed an achievable retail rent of \$1.50/month⁴ for new space in this the catalyst project. Retail operating expenses include vacancy loss/bad debt at 7% and a 4% management fee (see Table 3). The estimated net operating income for the retail space is \$280,350. Assuming a 7.5% cap rate, the value of the retail is estimated at \$3,738,000 (see Table 4).

The value of the residential and retail components combined is \$18,600,000.

To evaluate the economic feasibility of this catalyst project, we compare the project value (excluding cost of sale) to development costs with an allowance for developer profit. Table 2 shows that the value falls short of the feasibility requirement. The economic feasibility gap is \$11 million. Filling this gap would be an appropriate use of public funds if this project is a downtown revitalization objective.

D. Plaza at Fourth and San Benito

The Plaza catalyst project is a proposed new construction located at 4th Street and San Benito, consisting of 4 two story buildings of approximately the same size with office and retail space, surrounding a 6,500 SF new plaza. The revenue generating floor area for all four buildings totals 14,000 SF. There are 7,000 SF of ground floor retail space and

² This does not include any cost of building demolition.

³ Area Median Income (AMI) is \$90,000 for a family of three in the San Jose-Sunnyvale-Santa Cruz SMSA.

⁴ Current ground floor retail rents in Hollister range from \$0.75 to \$1.46, gross.

7,000 SF of upper floor office space. The 6,650 SF plaza is expected to include trees, benches, a fountain, a gateway arch, and other landscaping and pedestrian amenities. This development includes no on-site parking and will rely upon existing parking structures and on-street parking.

Since the buildings are approximately the same size, CCG evaluates the economic feasibility of all four buildings combined along with the total plaza area. CCG's economic feasibility findings can be divided by four to determine these estimates on a per building basis.

The approach to evaluating economic feasibility is similar to that used for the Sally Street project, with modifications as appropriate for the different land uses. Both office and retail construction costs are estimated at \$160/SF (see Table 5). The allowance for indirect costs for both uses is estimated at 21% of hard costs, for a total of about \$500,000. CCG assumes that these buildings would only require a 12 month construction period. A construction loan at 8% interest rate and 2 point loan fee is assumed. CCG estimates financing costs at \$178,000. The total development costs are approximately \$3 million.

CCG assumed an achievable retail & office rent of \$1.50/month for Sally Street catalyst project (see Table 6). CCG assumed that the construction loan would be sized by the projected cash flow at approximately \$2 million. Therefore, this project requires a \$1.2 million equity investment.

Assuming a permanent loan of \$2 million, supportable equity generated from net cash flow after debt service of \$449,521, and less development costs, there is an economic feasibility gap for all four buildings combined of \$828,789 (see Table 7). Each building, if assumed to carry one-fourth of the public plaza, would have a feasibility gap of \$207,197. If sufficient public funds were available, this project would qualify for a subsidy from redevelopment or other public sources. On the other hand, if the market improved and the rents were to increase by an average of \$0.35/SF for retail and office space, this project would be economically feasible and the gap would disappear.

TABLE 1
Hotel Catalyst Project
Development Costs
Hollister

DEVELOPMENT PROGRAM

Hotel Rooms	28
Non Hotel Space (SF)	8,000

DEVELOPMENT COSTS	Method of Calc.	Costs	per room
Land Acquisition		<u>\$0</u>	<u>\$0</u>
Direct Costs			
Hotel Rehab	\$21,429/RM	\$600,000	\$21,429
Non-Hotel Rehab	\$50/SF	\$400,000	\$14,286
FF&E		<u>\$0</u>	<u>\$0</u>
Subtotal Direct Costs		\$1,000,000	\$35,714
Indirect Costs			
Architecture & Engineering	6% Hards	\$63,000	\$2,250
Permits & Fees	\$4,563/RM	\$127,764	\$4,563
Construction Period Interest	9.00% Loan	\$47,114	\$1,683
Construction Loan Fees	1.50% Loan	\$13,087	\$467
Legal /Accounting	2.50% Hards	\$25,000	\$893
Pre-opening expenses	\$469/RM	\$13,132	\$469
Marketing	\$469/RM	\$13,132	\$469
Taxes	1.00% TDC, 60% out	\$8,736	\$312
Insurance	0.50% hards	\$5,000	\$179
Developer Management Fee	4.0% Hards	\$40,000	\$1,429
Misc. Development Expenses		\$0	\$0
Working Capital		\$0	\$0
Franchise Fee		<u>\$0</u>	<u>\$0</u>
Subtotal Indirect Costs		\$355,965	\$12,713
General Contingency	10.0% Hards	\$100,000	\$3,571
Total Development Costs (TDC)		\$1,455,965	\$51,999

SOURCES OF FUNDS

		Estimate	per room
Construction loan	65% LTC	\$872,484	\$31,160
Required Equity	23%	\$334,607	\$11,950
Less: Historic Tax Credit Equity	17%	<u>\$248,874 *</u>	<u>\$8,888</u>
Total Sources of Funds		\$1,455,965	\$51,999

* CCG estimates that 90% of the total development costs, minus ineligible cost basis such as financing and marketing fees, are eligible for 20% historic preservation tax credits and investors purchase the credits at 90% of value.

Source: Conley Consulting Group, May 2008

TABLE 2
Sally Street Catalyst Project
Development Costs
Hollister

DEVELOPMENT PROGRAM

Retail (SF)		17,500
Retail Parking (spaces)	surface	12
Residential (units) - Partially 2 story		58
Residential Parking (spaces)	structural	87

DEVELOPMENT COSTS

	<u>Method of Calc.</u>	<u>Cost</u>
Land Acquisition	Allowance	\$0
Direct Costs		
Retail Construction	\$160/SF	\$ 2,800,000
Residential Construction	\$202,399/Unit	11,739,142
Podium Parking	\$26,250/stall	2,598,750
Site Work	\$7.50/SF	391,125
Courtyard	\$12.00/SF	210,000
Demolition Costs		0
Subtotal Hard Costs		<u>17,739,017</u>
Indirect Costs		
Retail	21% Hards	3,725,194
Residential	24% Hards	4,257,364
General Contingency	5.0% Hards	886,951
Financing Costs		
Construction Loan Fees	2.0% Loan	261,056
Construction/Sales Period Interest	8.00%, 18 mths, 60%	939,802
Subtotal Financing Costs		<u>1,200,858</u>
Total Development Costs (TDC)		\$27,809,383

Feasibility Analysis

		<u>Estimate</u>
Sale at Completion		
Gross Proceeds of Sales		\$ 15,370,000
Less: Cost of Sale @	3%	(\$461,100)
Net Proceeds of Sales		\$14,908,900
Value of the Retail		\$3,738,000
Less: Developer Profit	10%	(\$1,864,690)
Less: Development Costs		<u>(\$27,809,383)</u>
(Gap)/Residual Value		(\$11,027,173)

Source: Conley Consulting Group, May 2008

TABLE 3
Sally Street Catalyst Project
Retail Net Operating Income
Hollister

	Category Name	Rent/SF/Yr	Total Rent
RETAIL	Small Stores	\$ 18.00	\$ 315,000
	Subtotal		\$ 315,000
GROSS INCOME			\$ 315,000
	Less: Vacancy and Bad Debt	7%	(\$22,050)
	Less: Management	4%	(\$12,600)
NET OPERATING INCOME			\$ 280,350

Source: Conley Consulting Group, May 2008

TABLE 4
Sally Street Catalyst Project
Sally Street Feasibility Test
Hollister

Method I. Sale at Completion

Sales Price (Market Rate)	\$333,579 @60%AMI, \$275,643 @ 50%AMI	\$	265,000
Number of Units			58
Gross Proceeds of Sales		\$	15,370,000
Less: Cost of Sale @3%	3.00%		(461,100)
Net Proceeds of Sales			14,908,900
Value of the Retail	7.50%		3,738,000
Less: Required Return on Value	10.00%		(1,864,690)
Less: Development Costs			(\$27,809,383)
Residual value/(gap)		\$	(11,027,173)

Source: Conley Consulting Group, May 2008

TABLE 5
Plaza Catalyst Project
Development Costs
Hollister

DEVELOPMENT PROGRAM

Office (SF)	<i>TTL for 4 Bldgs</i>	7,000
Retail (SF)	<i>TTL for 4 Bldgs</i>	7,000
Retail Parking (spaces)		0
Plaza (SF)		6,500
Revenue Generating Floor Area (SF)		14,000
Total (SF)		20,500

DEVELOPMENT COSTS

	Method of Calc.	Cost
Land Acquisition	Allowance	\$0
Direct Costs		
Office Construction	\$160/SF	1,120,000
Retail Construction	\$160/SF	1,124,800
Parking and Circulation	\$0/stall	0
Site Work	\$7.50/SF	155,100
Plaza Landscaping	\$12.00/SF	79,800
Subtotal Hard Costs		<u>2,479,700</u>
Indirect Costs	21% Hards	520,737
General Contingency	5.0% Hards	123,985
Financing Costs		
Construction Loan Fees	2.0% Loan	40,485
Permanent Loan Fees	2.0% Loan	40,485
Construction Period Interest	8.00%, 12 mths, 60%	97,164
Subtotal Financing Costs		<u>178,134</u>
Total Development Costs (TDC)		\$3,302,556

ECONOMIC FEASIBILITY TESTS

Warranted Investment	Estimate
Loan Amount	<u>\$2,024,245</u>
Supportable Equity	\$449,521
Less: Development Costs	<u>(\$3,302,556)</u>
Residual Value/(Gap)	(\$828,789)

Source: Conley Consulting Group, May 2008

TABLE 6
Plaza Catalyst Project
Retail and Office Net Operating Income
Hollister

	Category Name	Rent/SF/Yr	Total Rent
RETAIL	Small Stores	\$ 18.00	\$ 126,540
	Office (NNN)	\$ 18.00	\$ 126,000
	Subtotal		\$ 252,540
GROSS INCOME			\$ 252,540
	Less: Vacancy and Bad Debt	7%	(\$17,678)
	Less: Management	4%	(\$10,102)
NET OPERATING INCOME			\$ 224,761

Source: Conley Consulting Group, May 2008

TABLE 7
Plaza Catalyst Project
Plaza Feasibility Test
Hollister

Stabilized NOI (Office & Retail)		\$	224,761
Method II. Warranted Investment			
#1 Supportable Debt Calculation			
	NOI		224,761
	Funds available for DS @	1.25	179,808
	Loan Supportable		2,024,245
#2 Supportable Debt Calculation			
	Development Costs		3,302,556
	Max loan @	80% LTC	2,642,044
# 3 Supportable Debt Calculation			
	Value at Completion		2,996,808
	Max Loan @	70% LTV	2,097,766
Maximum Loan			2,024,245
	Interest payment		(161,940)
	Principal payment		(17,869)
	DS on maximum loan		(179,808)
Supportable Equity			
	CF after Debt		44,952
	Equity supportable at 10% @ ROE		449,521
Warranted Investment			
	Max Supportable Loan		2,024,245
	Supportable Equity		449,521
	Total Warranted Investment	\$	2,473,766
	Less: Development Costs		(3,302,556)
Residual value/(gap)		\$	(828,789)

Source: Conley Consulting Group, May 2008