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MEMORANDUM

Date: February 25, 2013

To: Nore' Winter, Winter & Company
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From: Andrew J. Plescia
Principal

Subject: Preliminary Economic Analysis of Case Study Sites: Mammoth Lakes
Transportation Corridor and Implementation Plan

Introduction

This memorandum presents information regarding the preliminary economic analysis prepared for certain hypothetical development sites along Main Street in Mammoth Lakes, California. The intent of the preliminary analysis is to determine the potential economic feasibility of certain land use types and intensity of development as part of the Main Street Transportation and Implementation Plan. The preliminary economic analysis is based on a stipulated set of cost, revenue, financing and investment assumptions related to the subject hypothetical development programs.

The three hypothetical development sites and related land use addressed in this preliminary economic analysis include: (1) Site A – Hotel; 2) Site D – Commercial / Residential Mixed-Use; and 3) Site E – Commercial, Hotel and Residential.

Findings

The preliminary results of the economic analysis of case study development sites A, D and E indicate the following:

1. The estimated total development costs of subject proposed case study site development programs are projected to exceed the respective estimated net project values. The primary reasons for this result are:
 - the extent of development costs associated with the proposed type of the proposed development programs – in particular the proposed use of structured parking (below-grade) for Sites A and E;
 - the extent of the current Town of Mammoth Lakes development impact fees; and
 - the inability of current estimated market-rate rents for commercial and multiple-family residential (apartments), and sale prices for ownership housing to fully offset the estimated total development costs of the development.

2. The amount of estimated available cash flow beyond required debt service payments is projected to be very limited particularly in the early years of project operations. Due to the reasons indicated in item 1 above, the estimated range for return-on-equity for the subject proposed case study site development programs is projected to be substantially less than the assumed targeted figure for an acceptable return-on-equity to a developer / investor of 15.0%. Acceptable return-on-equity investment levels may potentially be achieved in the long-term if there is an escalation in values resulting from increased commercial and residential rents over time.
3. Further analysis of the subject case study site development programs should be focused on approaches to increase the economic productivity of hypothetical development sites e.g. increased allowed building heights, increased allowable density, reduced on-site parking with provision of some parking required through joint-use / shared parking facilities strategically located along the Main Street corridor. In the early years of the planned Main Street corridor revitalization development programs will need to focus on providing required parking by means of surface or tuck-under parking.

I. Land Use and Development Programs

For the purposes of this preliminary economic analysis we used the proposed development programs for the three subject hypothetical development sites as provided by the Town of Mammoth. These proposed development programs are described in detail in the respective attachments to this memorandum.

1. Site A - Hotel - The proposed development program includes a five-story hotel building with 78 rooms (52,300 gross square feet) along with 78 on-site parking spaces (9 surface spaces and 69 structured parking spaces in an underground garage on the 1.0 acre site.
2. Site D – Commercial / Residential Mixed-Use - The proposed development includes a two-story building with one-story of multiple-family rental housing (apartments) above a one-story ground floor retail space on the 0.5 acre site. On-site surface parking is included as part of the hypothetical development program.

For purposes of this preliminary economic analysis, we have presented two versions of this case study site. The first version includes five residential units, 5,000 square feet of commercial retail space and nine on-site surface parking spaces. The second version includes nine residential units, 5,000 square feet of commercial retail space and nine on-site surface parking spaces.

3. Site E – Commercial, Hotel and Residential - The proposed program includes a 5 story hotel building with 300 rooms (215,000 square feet) and 10,000 square feet of ground floor commercial retail space, 25,000 square feet of free-standing commercial retail space and 34 for-sale residential units (26 condominium units and 8 townhouse units) on the 5.0 acre site.

On-site parking for the commercial and hotel is provided by a 440 space below-grade parking garage. Fifty-two (52) on-site surface parking spaces are provided for the condominium units and individual two-car garages are provided for each townhouse unit.

II. Preliminary Economic Analysis

A. Estimated Development Costs

Estimated total development costs were prepared for each of the three case study site development programs including land, direct construction, indirect and financing costs providing an "order-of-magnitude" estimate (presented in 2012 dollars) as described below.

Land

Based on our interviews with developers and review of applicable materials provided by the Town of Mammoth Lakes staff, we used an assumption that the estimated existing value of vacant land similar in terms of size to the hypothetical case study sites along Main Street is approximately \$1.0 million per acre.

Direct Construction

The indicated estimate of direct construction costs include costs for public improvements, site work, building construction, tenant improvements, parking, general contractor and contingency. Table 2 of each case study site development program analysis attached to this memorandum summarizes the estimated development cost associated with each hypothetical land use development type. As part of the preliminary analysis we used the following assumed basic building construction cost estimates (plus a 15.0% cost for general contractor costs).

- commercial retail space - \$110.00 per square foot (wood frame);
- hotel – \$130.00 per square foot (wood frame);
- multiple family residential (apartment) - \$120.00 per square foot (wood frame); and
- for-sale residential (condominium and townhouse) - \$140.00 per square foot (wood frame)

Based on our interviews with developers, prior experience, and review of applicable materials provided by the Town of Mammoth Lakes staff, we used the following assumed sources of development cost:

- Site work - \$10.00 per square foot of site area
- Tenant improvements - \$40.00 per square foot of commercial retail lease space
- Hotel FF&E - \$12,500 to \$15,000 per room
- Surface Parking - \$10.00 per square foot of parking area
- Structured Parking (Below-grade) - \$75.00 per square foot of parking area

The estimated development costs do not include any off-site public infrastructure (water, sewer, etc.) improvement or on-site environmental remediation costs.

Indirect Construction

The estimated costs for non-construction items including predevelopment, architecture, engineering, permits / fees, taxes, legal, title, closing, marketing, leasing commissions, administration / overhead, developer fee and contingency. For purposes of this preliminary economic analysis the Town of Mammoth Lakes Affordable Housing Policy is applied to the hypothetical case study site development programs. For the purposes of this preliminary analysis the amount of estimated indirect costs range from approximately from 35.0% to 45.0% of the estimated direct construction costs depending on the land use / development type.

Financing

The estimated costs associated with either private financing of the proposed improvements including estimated construction loan fees and related costs, and construction loan interest. For the purposes of this preliminary analysis the amount of estimated financing costs range from 6.0% to 10.0% of the estimated direct construction costs depending on the land use / development type.

A summary of the estimated total development cost for each of the three subject case study site development programs is presented below.

	Site A	Site D-1	Site D-2	Site E
Land	\$ 1.0	\$ 0.5	\$ 0.5	\$ 5.0
Direct Construction	\$12.3	\$ 2.5	\$ 2.7	\$66.9
Indirect	\$ 5.6	\$ 0.8	\$ 1.0	\$28.4
Financing	\$ 0.8	\$ 0.2	\$ 0.2	\$ 7.0
Total	\$19.7	\$ 4.0	\$4.5	\$107.3
Per SF (Building Area)	\$376	\$404	\$300	\$376

Source: A. Plescia & Co.

B. Operating Revenue and Expenses

Based on interviews with knowledgeable real estate brokers and a review of secondary real estate market data we made assumptions for lease rates for commercial retail space, average daily room rates for hotel, monthly rents for multiple family residential (apartment) units, and unit sale prices for for-sale residential (condominium and townhouse) units as follows:

- commercial retail space - \$1.50 per square foot (NNN) plus \$0.75 in tenant reimbursements (common area maintenance) charges;
- hotel - blended average daily room rate of \$250.00 per room per night taking into account peak and non-peak seasons;
- multiple family residential (apartment) - monthly rent of \$2.00 per square foot plus \$75 per space per month for parking; and
- for-sale residential - \$400.00 per square foot and \$450.00 per square foot for condominium and townhouse units, respectively.

For purposes of this preliminary economic analysis, we assumed annual rent and operating expense escalation of three-percent. Annual operating expenses are assumed to be \$9.00 per square foot for commercial retail space, 25.0% of estimated annual gross income for hotel, and 25.0% of effective gross income for multiple-family residential (apartments). The basic estimated operating revenue and income expenses assumptions are summarized below.

Table 2: Operating Revenue and Expense Parameters			
	Commercial	Hotel	Apartment
Base Monthly Lease Rate	\$1.50 / SF NNN		\$2.00 / SF
Average Daily Room Rate		\$250.00	
Annual Occupancy Rate	90.0%	50.0%	95.0%
Annual Revenue Escalation	3.0%	3.0%	3.0%
Annual Operating Expenses	\$10.00 / SF	25.0% of gross income	25.0% of gross income
Annual Expense Escalation	3.0%	3.0%	3.0%
			Source: A. Plescia & Co.

C. Net Project Value

Project value estimates were prepared based on an income approach to valuation using estimated rents for the commercial retail space and multiple-family residential (apartment) units (components of the respective development programs for Sites A, D and E). The estimated project values were derived by capitalizing the estimated annual net operating income using a capitalization rate of 8.0%.

The estimated project value of the hypothetical for-sale residential units is based on the estimated sale prices / proceeds from the sale of such units. For purposes of this preliminary economic analysis it is assumed that the hypothetical for-sale housing development program would include 10.0% of the units as affordable units per the Town of Mammoth Lakes Affordable Housing Policy.

The estimated net project value of each case study development site is based on comparing the estimated gross project value to the estimated total development cost. A summary of the estimated net project value for each of the subject case study site development programs is presented in the table below.

Table 3: Estimated Project Values (in millions)				
	Site A	Site D-1	Site D-2	Site E
Net Operating Income	\$ 1.0	\$ 0.2	\$ 0.2	\$ 5.7
Net Sale Proceeds				
Net Project Value	\$12.7	\$2.0	\$2.9	\$ 86.7
Development Cost	\$19.7	\$4.0	\$4.5	\$107.2
Net Project Value	(\$ 6.9)	(\$ 2.0)	(\$1.6)	(\$20.5)
				Source: A. Plescia & Co.

As indicated the estimated total development cost of subject proposed redevelopment programs (based on the assumptions presented in this memorandum) exceed the respective estimated project values. The primary reasons for this result are:

- the extent of development costs associated with the proposed type of the proposed development programs – in particular the proposed use of structured parking (below-grade) for Sites A and E; and the climatic conditions of the Mammoth Lakes area; and
- the inability of current estimated market-rate rents for commercial and multiple-family residential (apartments), and sale prices for ownership housing to fully offset the estimated total development costs of the development.

D. Project Cash Flow and Investment Return

For each case study development site we prepared a 20-year operating pro-forma to indicate estimated annual income, operating expenses and net operating income – including the commercial retail, hotel and multiple-family residential (apartment) uses. The purpose of these calculations was to estimate the amount of available annual net operating that before payment of debt service (permanent loan financing) and return to equity investors.

We also prepared a 20-year investment pro-forma for each case study site indicating the estimated amount of construction loan, equity, net operating income (or sale proceeds for the for-sale residential), debt service and net cash flow. The estimated annual debt service is based on the assumptions listed in Table 4 below.

	Commercial / Residential	Hotel
Construction Loan Amount	65.0%	50.0%
Equity Amount	35.0%	50.0%
Construction Loan Rate	6.0%	6.0%
Mortgage Loan Amount	50.0%	50.0%
Equity Amount	35.0%	50.0%
Mortgage Rate	6.0%	6.0%
Mortgage Term	20-years	20-years
Targeted Return-on-Equity	15.0%	15.0%

Source: A. Plescia & Co.

The estimated net cash resulting from these calculations is then compared to amount of equity required by the assumed loan-to-cost (value) ratios. Dividing the estimated net cash flow yields an estimated return on equity. Based on the preliminary economic analysis, the estimated average annual return-on-equity for the three case study development sites are 3.9% for Site A, 0.3% for Site D-1, 4.6% for Site D-2 and 9.2% for Site E. These are significantly lower than the assumed targeted figure for an acceptable return-on-equity to a developer / investor of 15.0%.

Caveats and Limitations

1. The preliminary economic analysis contained in this document is based, in part, on data and information from secondary sources, including the City of Roseville. A. Plescia & Co. believes that these sources are reliable, however, A. Plescia & Co. cannot guarantee the accuracy of such data and information.
2. The preliminary economic analysis assumes that neither the local, regional or national economy will experience a major recession. If an unforeseen change occurs in either the local, regional or national economy the information contained in this document might not be valid.
3. The information contained in this preliminary economic analysis is based on economic considerations, not political considerations. Therefore the preliminary information should not be construed as a representation or opinion that any required governmental approvals would be secured for any proposed development projects.
4. The preliminary economic analysis is based on the informed judgment of A. Plescia & Co. using the best available market, business and economic data and information that reflects current real estate market conditions as of the date of this preliminary analysis. The preliminary information and analysis should not be relied upon as sole input and basis for any final business decisions regarding any proposed development projects.
5. Any preliminary estimated land values, construction costs, financing costs, lease rates, sales income projections, etc. are based on the best available data and information as of the date of this preliminary economic analysis. No warranty or representation, either expressed or otherwise, is made that these estimates would actually materialize.