Luciralia Ibarra <luciralia.ibarra@lacity.org>

8150 Sunset: Financial Feasibility Analysis

Nytzen, Michael <michaelnytzen@paulhastings.com> Thu, Apr 21, 2016 at 6:15 PM
To: Luci Ibarra <luciralia.ibarra@lacity.org>, William Lamborn <william.lamborn@lacity.org>
Cc: "Haber, Jeffrey S." <jeffreyhaber@paulhastings.com>

Luci and Will:

Attached pleased find the financial feasibility analysis for the 8150 Sunset Boulevard project prepared by HR&A Advisors, Inc., dated March 1, 2016, along with a peer review of the HR&A analysis prepared by RSG, Inc., dated April 21, 2016. These should be posted to the Planning Department's Website for the 8150 Sunset project.

Please let us know if you have any questions or would like to discuss.

Regards,

Michael

PAUL HASTINGS

E. Michael Nytzen | Senior Land Use Project Manager
Paul Hastings LLP | 515 South Flower Street, Twenty-Sixth Floor, Los Angeles, CA 90071 | Direct: +1.213.683.5713 | Main: +1.213.683.6000 | Fax: +1.213.996.3003 | michaelnytzen@paulhastings.com |
www.paulhastings.com

---

2 attachments

HR&A 8150 Sunset Boulevard Financial Feasibility Analysis_3.1.2016.pdf
640K

RSG 8150 Sunset Blvd Financial Feasibility Analysis Peer Review (4.21.2016).pdf
52K

HR&A Analyze. Advise. Act.

March 1, 2016

Tyler Siegel
AG-SCH 8150 Sunset Boulevard Associates, L.P.
Suite 702
8899 Beverly Blvd.
West Hollywood, CA 90048

Re: <u>8150 Sunset Blvd. Project Financial Feasibility Analysis</u>

Dear Mr. Siegel:

Per your request, HR&A Advisors, Inc. (HR&A) has completed financial feasibility analyses of two development programs you provided to us for a mixed-use development located at 8150 Sunset Boulevard in the City of Los Angeles ("City"), the location of which is shown in Attachment A. As we understand it, the approval of Affordable Housing Incentives has been requested from the City. The primary Affordable Housing Incentive requested is an off-menu incentive to allow an increase in floor area in consideration of providing affordable housing units for very low-income households, per Section 12.22-A,25(f)(4) of the Los Angeles Municipal Code.

AG-SCH 8150 Sunset Boulevard Associates, L.P. ("AG-SCH") provided us the basic development program for both development scenarios, as well as the 2012 land acquisition cost and a conceptual estimate of development costs (which we independently reviewed). AG-SCH also provided us the costs associated with the buy-out of eight existing tenants on the site, and certain legal and environmental consulting. We used AG-SCH's development programs, land cost, buy-out cost, and consultant costs in our analyses, but applied our own independent calculations of development costs, net operating income and investment returns. Our analysis utilizes a number of real estate industry data sources for the Los Angeles area, which are noted in the detailed development pro formas in Attachment D to this memo.

We evaluated the project's financial feasibility based on two common investment return metrics. First, we evaluated the return on total development cost (i.e., Net Operating Income (NOI) divided by total development cost), for which we assumed a minimum threshold of one percentage point more than the applicable income capitalization (or "cap") rate for new development at this location, to account for investment risk.[1] Second, after using that cap rate to estimate the value of this development at stabilized operation, and then deducting costs of sale and total development costs, the ratio of the resulting developer profit to the net after-sale value, was compared with a minimum developer profit margin threshold of 12.5 percent, which in our experience is a typical return threshold for Los Angeles development projects (i.e., midpoint of a 10-15 percent range). Both of these return metrics are conservative, considering the significant entitlement and litigation risk associated with a large project in the Hollywood Community Plan area.

[1] Cap rates used in this analysis are weighted averages, based on the shares of floor area in each scenario that is assumed to be occupied by retail versus residential uses, and multiplied by the applicable cap rate for each land use. For example, the weighted average cap rate of 5.2% for the base case development scenario is tilted in the direction of the retail cap rate, because this scenario includes 85,000 square feet of retail space and roughly 22,000 square feet of residential space (i.e., 28 affordable units). On the other hand, the development scenario with 110,000 square feet of retail space and 190,000 square feet of residential space (i.e., 221 market rate units and 28 affordable units), is more heavily tilted toward the applicable residential cap rate, resulting in a weighted average of 4.7%.

Using this approach and based on the analysis summarized below, and supported by the calculation detail in Attachment D to this letter, we conclude that:

- **The development scenario with 28 affordable units for very low income households, 85,000 square feet of commercial space, and a base 1.0 Floor Area Ratio (FAR), without Affordable Housing Incentives which could achieve a 3.0 FAR, would not be financially feasible.** This is because: (1) the return on total development cost falls below a minimum threshold for return on total development cost that we believe would be required to attract investment capital to the project (i.e., 4.4% vs. 6.2%); and (2) it yields a negative developer profit margin, as compared with a minimum acceptable investment return threshold (i.e., -22.7% vs. 12.5%); and

- **The development scenario with 221 market rate units, 28 affordable units for very low-income households, 110,000 square feet of commercial space, and Affordable Housing Incentives that achieve a 3.0 FAR would be financially feasible.** This is because it would produce a return on total development cost that is greater than the minimum threshold (i.e., 6.0% vs. 5.7%) and a developer profit margin that is greater than the minimum acceptable threshold (i.e., 21.6 vs. 12.5%).

The basis for the above conclusions is summarized below. Sources and notes for the assumptions used in these analyses are included with more detailed pro formas in Attachment D to this letter.

The 1.0 FAR Development Scenario with Affordable Housing and Retail, but no Affordable Housing Incentives

As shown in Table 1, for the 1.0 FAR development scenario, development costs total $108.5 million and NOI totals $4.8 million. The resulting return on total development cost is 4.4 percent as compared with a minimum threshold of 6.2 percent. The minimum threshold was set at one percentage point more than a weighted average of the applicable cap rates for each land use (i.e., 5.4% for retail and 4.2% for multi-family residential, resulting in a weighted average cap rate of 5.2%). After using that cap rate to estimate the value of this development at stabilized operation, and then deducting imputed costs of sale and total development costs, the ratio of the resulting developer profit was compared with the net after-sale value, which produced a loss of $20 million and a negative profit margin of -22.7 percent, as compared with a minimum threshold of 12.5 percent that is typical for this type and scale of development. Therefore, this development scenario is not financially feasible.

Table 1: 1.0 FAR Development Scenario with Affordable Housing and Retail, but no Affordable Housing Incentives

	Without Affordable Housing Incentives	
	Per Unit	Total
Development Program		
Land Area (sf)	3,976	111,339
Gross Building Area (GSF)	3,929	110,000
FAR (based on GSF)		1.0
Rentable Area - Residential (NSF)	802	22,450
Rentable Area - Commercial (NSF) - 1 Space		85,056
Building Efficiency		97.7%
Apartments		
Market Rate		
Affordable		28
Total Units		28
Subterranean Parking		250
Levels		1
Structured Parking		160
Residential & Commercial Spaces		1
Total Residential & Commercial Parking		410

Development Costs	Total
Land Acquisition	$ 34,000,000
Hard Construction	$ 48,490,776
Soft Costs	$ 17,387,895
Financing Costs	$ 8,629,517
Total Development Cost (TDC)	**$ 108,508,189**

Net Operating Income	Per NSF/Unit/Mo.	Annual
Net Apartment Income	$ 0.43	$ 108,002
Net Commercial Income	$ 3.66	$ 4,702,722
Net Operating Income (NOI)	**$ 3.64**	**$ 4,810,724**

Feasibility	
Return on Cost (NOI / TDC)	4.4%
Feasible?	NO
(Minimum = Cap Rate + 1.00% = 6.2%)	
Developer Profit Margin	
Net Project Sale Value	$ 88,444,188
Less: Total Development Cost (from above)	$ (108,508,189)
Developer Profit	$ (20,064,000)
Developer Profit Margin	-22.7%
Feasible?	NO
(Minimum = 12.5%)	

The 3.0 FAR Development Scenario with Market Rate and Affordable Housing and Retail, Flexible Parking Incentives, and On- and Off-Menu FAR Incentives

As shown in Table 2, for the 3.0 FAR scenario that also includes flexible parking allowances, development costs total $238.4 million and Net Operating Income totals $14.4 million. As stated above, the minimum threshold was set at one percentage point more than a weighted average of the applicable cap rates for each land use (i.e., 5.4% for retail and 4.2% for multi-family residential, resulting in a weighted average cap rate of 4.7%).The resulting return on total development cost is 6.0 percent, as compared with a minimum threshold of 5.7 percent and the ratio of developer profit to net after-sale value produces a profit margin of 21.6 percent, as compared with a minimum threshold of 12.5 percent. Therefore this development scenario is financially feasible.

Table 2: The 3.0 FAR Development Scenario with Market Rate and Affordable Housing and Retail, Flexible Parking Incentives, and On- and Off-Menu FAR Incentives

	With Affordable Housing Incentives	
	Per Unit	Total
Development Program		
Land Area (sf)	447	111,339
Gross Building Area (GSF)	1,341	333,903
FAR (based on GSF)		3.0
Rentable Area - Residential (NSF)	768	191,324
Rentable Area - Commercial (NSF) - 1 Space		110,000
Building Efficiency		90.2%
Apartments		
Market Rate		221
Affordable		28
Total Units		249
Subterranean Parking		649
Levels		4
Structured Parking		200
Residential & Commercial Spaces		849
Total Residential & Commercial Parking		849
Development Costs		**Total**
Land Acquisition		$ 34,000,000
Hard Construction		$ 143,484,270
Soft Costs		$ 41,267,153
Financing Costs		$ 19,600,127
Total Development Cost (TDC)		**$ 238,351,550**
Net Operating Income		Annual
Net Apartment Income		$ 7,710,540
Net Commercial Income		$ 6,690,090
Net Operating Income (NOI)		**$ 14,400,630**
Feasibility		
Return on Cost (NOI / TDC)		**6.0%**
Feasible?		**YES**
(Minimum = Cap Rate + 1.00% = 5.7%)		
Developer Profit Margin		
Net Project Sale Value		$ 303,947,501
Less: Total Development Cost (from above)		$ (238,351,550)
Developer Profit		**$ 65,595,952**
Developer Profit Margin		**21.6%**
Feasible?		**YES**
(Minimum = 12.5%)		

The details of our analysis of project feasibility under these development scenarios are included in Attachment D to this memo. As noted above, AG-SCH provided us the basic development program for both scenarios, the 2012 land acquisition cost (which we reviewed against comparable sales for that period) and a conceptual estimate of development costs prepared by Suffolk Construction (which we reviewed against Marshall & Swift cost estimations for the Los Angeles area). AG-SCH also provided us the costs associated with the buy-out of eight existing tenants on the site, including two major national/regional fast food chains, and other environmental, legal and outreach (collectively "consultant") costs in consideration of the high degree of litigation risk associated with major projects within the Hollywood Community Plan area. As also noted above, we used the development programs, land, buy-out and consultant costs, but applied our own independent calculations of development costs, net operating income and investment returns.

Development costs for the 3.0 FAR Development Scenario reflect both an elevated level of finishes as well as extensive subterranean parking, which will require major excavation and export of soil. In addition, the extensive retail component of the project will require broker involvement to ensure rapid lease-up, commissions for which are included in total development costs. The elevated levels of finishes are expected to support residential and retail pricing at the highest end of current offerings in the Los Angeles area, which will be consistent with retail and residential products along the Sunset Strip portion of Sunset Boulevard in West Hollywood and Los Angeles.

The market rate apartment rents used to calculate NOI for the 3.0 FAR Development Scenario, which average about $6.00 per square foot are based on a review of market comparables for high-end, new construction apartments with retail in prime submarket areas and an analysis of rent premiums associated with highly-amenitized, luxury buildings. There are few directly comparable buildings in the Los Angeles region and as such, the rents used in this analysis are conservative estimates. The closest comparable is 8500 Burton Way, where apartment rents are reported to average about $8.00 per square foot. Our analysis assumes that, unlike many apartment buildings, rents for larger units are higher on a per-square-foot basis than smaller units, as larger units will be located on higher floors with desirable views. Rents for 8500 Burton and two additional comparable buildings, as well as estimated cap rates for recent nearby sales are included in Attachment B of this memo.

In determining the above-mentioned development costs, net operating income, project value and investor returns, HR&A relied on generally accepted third party and other data sources (sources for all assumptions are included in Attachment D) and our own expertise. HR&A is a national economic development, real estate advisory and public policy consulting firm. We have extensive experience analyzing the financial feasibility of many different kinds of development products and planning initiatives, including extensive experience in the Los Angeles metro area. Our clients include a wide range of private and public sector organizations, including various departments of the City of Los Angeles. A summary of HR&A's qualifications is included in Attachment C.

Please contact me if you or the City of Los Angeles Department of City Planning has any questions about our analysis and conclusions.

Sincerely,

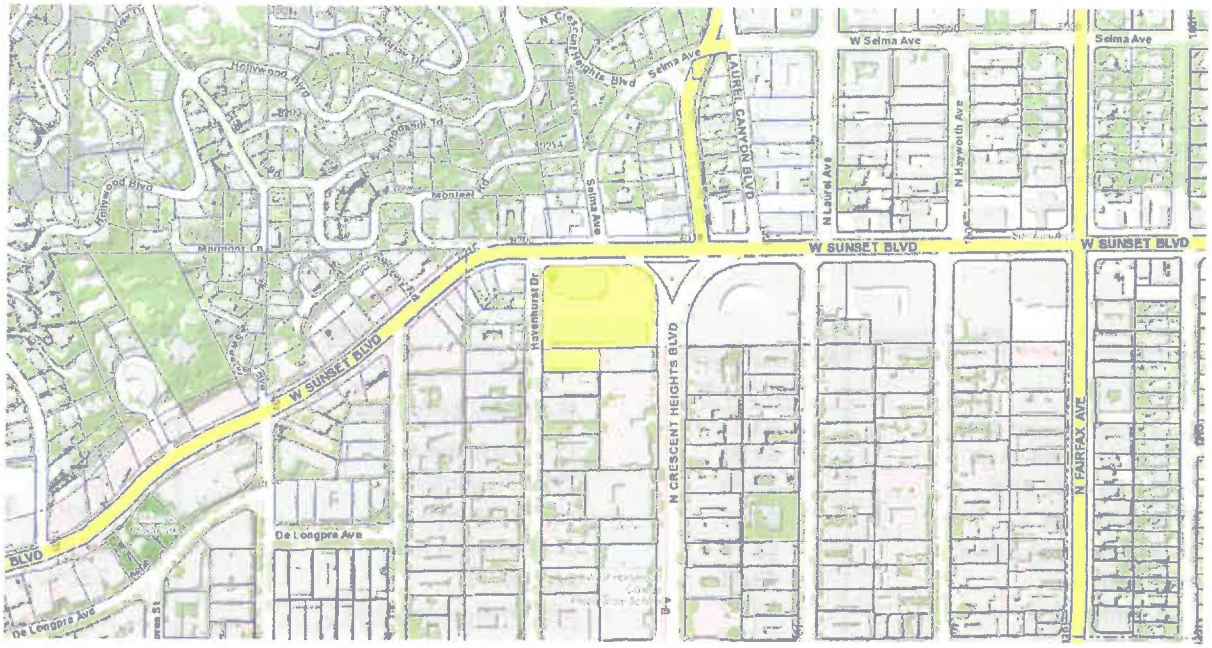
Paul J. Silvern
Vice President

Attachment A: 8150 Sunset Blvd. Parcel Map
Attachment B: 8150 Sunset Blvd. Rent and Cap Rate Comparables
Attachment C: Summary of Qualifications of HR&A Advisors, Inc.
Attachment D: 8150 Sunset Blvd. Financial Feasibility Analysis Without and With Proposed Affordable Housing Incentives for Increased Floor Area

HR&A Analyze. Advise. Act.

ATTACHMENT A

8150 Sunset Blvd. Parcel Map



HR&A Analyze. Advise. Act.

ATTACHMENT B

8150 Sunset Blvd. Rent and Cap Rate Comparables

Apartment Rent Comparables[1]

	Average Unit Size (SF)		Average Rents		Average Rents Per SF	
Address	**1 BR**	**2 BR**	**1 BR**	**2 BR**	**1 BR**	**2 BR**
8500 Burton Way	991	1,448	$6,964	$14,500	$7.03	$10.01
375 N. La Cienega Blvd	707	1,254	$3,290	$6,945	$4.65	$5.54
10700 Wishire Blvd	1,234	1,809	$5,680	$9,672	$4.60	$5.35
Average	**977**	**1,504**	**$5,311**	**$10,372**	**$5.43**	**$6.97**

Source: CoStar Group

[1] Includes large, very high-end new construction apartment buildings with retail in the Los Angeles area.

Retail Rent Comparables[1]

	Average Monthly Rent Per SF
6410-6412 Hollywood Blvd	$3.75
300-306 N Robertson Bvd	$9.00
8969 Santa Monica Blvd	$7.50
1050-1062 Vine St	$3.95
6338-6344 Hollywood Blvd	$5.70
1253 Vine Street	$3.55
6660 W Sunset Blvd	$2.52
1619 N La Brea Ave	$4.00
Average	**$5.00**

Source: CoStar Group

[1] Includes retail spaces over 1,500 SF within the West Hollywood and Hollywood submarkets, with NNN lease initiation dates after June 2015.

Cap Rate Comparables[1]

Address	**Cap Rate**
Multifamily Residential[2]	
1724 Highland Ave	3.75%
7950 Sunset Blvd	4.25%
10700 Wilshire Blvd	3.30%
6138 Franklin Ave	3.40%
5659 8th St	3.50%
6300 Hollywood Blvd	7.00%
Average	**4.20%**
RERC - Apartment	4.80%
Retail[3]	
8000 W Sunset Blvd	6.00%
6904-6912 Hollywood Blvd	6.75%
11817-11819 Wilshire Blvd	3.50%
Average	**5.42%**
RERC - Retail	5.80%

Source: CoStar Group; Real Estate Research Corp 2015 Q4 data

[1] Within the Bel Air, Beverly Hills, Brentwood, Century City, Hollywood Hills, Hollywood, Melrose, Mid-City West, Mid-Wilshire, West Hollywood, West Los Angeles and Westwood submarket areas.

[2] Includes properties that were built after 2000, have 50 or more residential units and were sold after January 2012.

[3] Includes properties with 30,000 or more square feet of retail space that were sold after January 2012.

Analyze. Advise. Act.

ATTACHMENT C

Summary of Qualifications of HR&A Advisors, Inc.

Over more than 35 years, HR&A Advisors, Inc. (HR&A) has built a distinguished track record solving complex real estate and economic development challenges.

HR&A Advisors, Inc. (HR&A) is an industry-leading development advisor with over three decades of experience working in collaboration with government agencies, private developers, architects, engineers, and other specialists. We bring a wealth of national experience in corridor redevelopment projects through place making and mixed-use development including transit-oriented development. Our work has been recognized with numerous prestigious real estate industry awards, including:

- 2014 **American Planning Association National Planning Achievement Award in Environmental Planning,** Arlington Count's Community Energy Plan, Arlington, VA
- 2014 **American Road & Transportation Builders Association Globe Award, First Place in Public Transit,** New York Rising Community Construction Program, NY
- 2013 **American Planning Association New York, Meritorious Achievement Award,** Brooklyn Tech Triangle Strategic Plan, Brooklyn, NY
- 2013 **American Planning Association Missouri, Outstanding Planning Award,** St. Louis Zoo Expansion Framework Plan, St. Louis, MO
- 2012 **American Institute of Architects Honor Award for Regional and Urban** Design, Master Plan for the Central Delaware Riverfront, Philadelphia, PA
- 2010 **International Economic Development Council Neighborhood Development Prize,** High Line Park Transformation, New York, NY
- 2009 **International Economic Development Council Public Private Partnership Award,** Cincinnati Center City Development Corporation (3CDC) Creation, Cincinnati, OH

HR&A was founded in 1976 (our predecessor corporation was Hamilton, Rabinovitz & Alschuler, Inc.) and has maintained an office in Los Angeles for 35 years. The firm's four offices in New York, Los Angeles, Dallas and Washington, D.C. enable us to serve clients around the U.S. and the world.

Strategic Positioning and Project Management. Complex redevelopment projects require strategic positioning and focused messaging to secure public land use approvals. HR&A has a successful track record spearheading large scale master plans and mixed-use projects through the public review processes, often in tandem with our other services including project management, economic impact and financial feasibility analyses, and master plan support. HR&A has been retained by developers and public agencies to perform a variety of management assignments ranging from project conceptualization to management of the technical team responsible for project development. In addition to a thorough understanding of the development business, our clients particularly value our ability to think strategically about their projects. This has propelled the firm into the forefront of reuse planning for closed military bases and development of downtown and urban waterfront revitalization strategies. HR&A has been awarded multiple assignments to manage the interdisciplinary teams of architects, urban designers, engineers and others to develop market-sensitive urban development and redevelopment strategies such projects require.

Market Analysis and Financial Feasibility Analysis. HR&A provides objective assessments of market and financial feasibility for public and private investments in real estate developments, open space, infrastructure and mass transit. The firm provides robust analysis of real estate market conditions – for the residential, commercial, retail, industrial, cultural and hotel sectors – to inform development strategies and programs for master plans and development projects, and support repositioning of existing real estate and infrastructure to anchor new development, including historic train stations, elevated highways, and industrial waterfronts. We also create retail redevelopment and revitalization strategies including development of marketing materials and tenant outreach strategies. HR&A is frequently retained to provide specialized analytic services in all areas of real estate market analysis and feasibility analysis. This includes pro forma development and review, cash flow modeling, investment return analysis, deal structuring, and the identification of equity, debt and subsidy resources and development capital structures. We have led and/or been key participants in negotiating many different kinds of real estate transactions on behalf of private and public clients, including experience with public ground lease deals.

Economic and Fiscal Impact Analysis. HR&A's economic and fiscal impact analyses help clients secure project approvals and public-private financing by providing clear rationales for action. HR&A regularly prepares analyses of the impacts development projects and planning proposals may have on the revenues and expenditures of local public agencies, and/or the regional economies in which they are situated. The firm is an expert user of static equilibrium models, including IMPLAN, and computable general equilibrium models, including REMI. HR&A has analyzed the impacts of film studio campus expansions, hotels, high-rise office buildings, shopping centers, hospital complexes, performing arts centers, convention centers, industrial parks, international hub and general aviation airports, for-sale and rental residential developments and large-scale, mixed-use, and transit-oriented developments.

Other Socio-Economic Impacts Analyses. HR&A has a long history of experience in all aspects of population, housing, and employment forecasting and analysis and public school impacts analysis. The firm's population and public school enrollment forecasting has been relied on by several school districts in making long-term facilities decisions, and was cited in a state appellate court case which determined that the Santa Barbara campus of the University of California was exempt from school impact fees. HR&A also has extensive experience with all aspects of developer fees and exactions. Beginning in the early 1980s, HR&A was retained by jurisdictions to design exaction systems in which the firm followed the basic principles of nexus and "fair share" later codified in the *Nollan* and *Dolan* decisions by the U.S. Supreme Court, the *Ehrlich* decision by the California Supreme Court and California Government Code Section 66000, *et seq.* HR&A has also been retained by a number of developers and developer/owner organizations to evaluate, critique and participate in seeking changes to adopted and proposed developer fee programs. The firm's technical rigor and thoughtfulness about these issues are respected by all sides in the continuing debate about this method of infrastructure financing.

Developer Negotiations. All of HR&A's principals and senior staff are very experienced negotiators, and the firm has particular expertise in negotiating real estate transactions, often in the context of public private development projects. These services have been performed on behalf of both private and public real estate clients, owing to our keen understanding of each party's interests and needs. HR&A has been involved in all aspects of the formal real estate negotiations process, from structuring the process through direct participation on behalf of clients and/or acting as technical advisor during the negotiation process. HR&A has participated in drafting exclusive negotiating agreements, memoranda of understanding, owner-participation agreements and development agreements, particularly with respect to financial terms and conditions.

Affordable Housing Strategies and Development. For over 30 years, HR&A has guided the design and implementation of the innovative programs that produce and preserve affordable housing. HR&A works with public and private sector clients across North America to formulate affordable housing strategies redevelop public housing projects and assist with the implementation of affordable housing policies and programs. HR&A has worked with jurisdictions to prepare affordable housing development financing plans, including the design of public-private real estate partnerships and the issuance of tax-exempt financing and tax-advantaged equity investments. The firm has a long history of consulting for a variety of parties in the housing development industry including: The Department of Housing and Urban Development (HUD); private lenders; public lenders; national intermediaries (e.g., NEF, CEF, LISC, Enterprise Foundation); local public agencies; community-based, non-profit developers; affordable housing developers; and some of the nation's leading private residential development organizations.

Energy Efficiency Solutions. HR&A is one of the few national consulting firms able to blend its practices in real estate and economic development advisory services into energy efficiency program development for our clients' benefit. Our work achieves environmental benefits while maximizing the opportunities for job creation and workforce development. In the past decade, we have emerged as a leader in economic feasibility assessment and management of large-scale energy efficiency initiatives for existing buildings, helping clients advance environmental responsibility through innovative strategies grounded in market pragmatism. We work with government clients to design meaningful public policy that adequately addresses private risk and advances public energy efficiency objectives. As experienced project leaders, we bring together the brightest minds in multidisciplinary fields and fuse their efforts into a cohesive whole. We also work with property owners and managers to project the accrual of energy savings given current lease structures and investment objectives, and quantify the combined impact of the investments on net operating income and overall asset value. HR&A carried out this practice area through ***G.Works***, a unique partnership with global leader Buro Happold Engineers to provide a single source for energy efficiency projects from planning through implementation.

Attachment D
8150 Sunset Blvd. Project
Financial Feasibility, Without Affordable Housing Incentives
with Affordable Housing and Retail

	Without Affordable Housing Incentives	
	Per Unit	Total
Development Program[1]		
Land Area (sf)	3,976	111,339
Gross Building Area (GSF)	3,929	110,000
FAR (based on GSF)		1.0
Rentable Area - Residential (NSF)	802	22,450
Rentable Area - Commercial (NSF)		85,056
Building Efficiency		97.7%
Apartments		
Market Rate		-
Affordable		28
Total Units		28
Subterranean Parking		250
Levels		1
Structured Parking		160
Residential & Commercial Spaces		1
Total Residential & Commercial Parking	14.64	410

Unit Mix[1]	Number	Net Rentable SF	Mo. Rent/NRSF	Mo. Rent	Total Mo. Rent
Market Rate [2]					
Studio	-	-	$ -	$ -	$ -
1 Bedroom	-	-	$ -	$ -	$ -
2 Bedroom	-	-	$ -	$ -	$ -
3 Bedroom	-	-	$ -	$ -	$ -
	-				$ -
Affordable [3]					
Studio	8	650	$0.71	$463	$ 3,704
1 Bedroom	15	750	$0.69	$520	$ 7,800
2 Bedroom	4	1,150	$0 50	$576	$ 2,304
3 Bedroom	1	1,400	$0.45	$634	$ 634
	28				$ 14,442

Land	Per Land SF	Per Unit	Total
Land Acquisition[4]	$ 305	$ 1,214,286	$ 34,000,000
Subtotal Land	$ 305	$ 1,214,286	**$ 34,000,000**

Construction[5]		Per Bldg. GSF	Per Unit/Space	Total
Hard Construc ion-Buildings (weighted average for all components)		$ 231	$ 908,823	$ 25,447,039
Hard Construc ion-Structured Parking (per space)[6]			$29,750	$ 4,760,000
Hard Construc ion-Subt. Parking (per space)[6]			$42,500	$ 10,625,000
Hard Construc ion-Sitework (x Excavation Cu. Yard)[7]	$75			$ 1,096,875
Tenant Improvements Allowance (x Retail NSF)[8]	$50	$ 39		$ 4,252,778
Hard Cost Con ingency (x Subtotal)[7]	5%	$ 21	$ 82,467	$ 2,309,085
Subtotal Construction		$ 441	$ 1,731,813	**$ 48,490,776**

Soft Costs[7]				
Design, Engineering & Consulting Services (x Hard Costs)	8.0%	$ 35.27	$ 138,545	$ 3,879,262
Permits & Fees (x Hard Costs)	4.0%	$ 17.63	$ 69,273	$ 1,939,631
Taxes, Insurance, & Accounting (x Hard Costs)	3.0%	$ 13.22	$ 51,954	$ 1,454,723
Development Management (x Hard Costs)	4.0%	$ 17.63	$ 69,273	$ 1,939,631
Tenant Buyouts[9]		$ 46.36	$ 182,143	$ 5,100,000
EIR, Legal, & Public Outreach[10]		$ 15.00	$ 58,929	$ 1,650,000
Leasing Commisions[11]		$ 10.44	$ 41,009	$ 1,148,250
Soft Cost Contingency (x Subtotal)	3.0%	$ 2.51	$ 9,871	$ 276,397
Subtotal Soft Costs	35.9%	$ 158.07	$ 620,996	**$ 17,387,895**

Construction Financing Costs[8]		Per GSF	Per Unit	Total
Land + Hard Costs + Soft Costs	$ 99,878,671			
Loan to Cost Ra io	80%			
Construction Loan Principal	$ 79,902,937			
Loan Fees (%)	2.5%	$ 18.16	$ 71,342	$ 1,997,573
Interest Rate	7.0%			
Outstanding Principal Balance	60%			
Term (years)	2			
Construction Period (months)	18			
Construction Loan Interest		$ 45.76	$ 179,782	$ 5,033,885
Permanent Loan Points	2.0%	$ 14.53	$ 57,074	$ 1,598,059
Subtotal Construction Loan		$ 78.45	$ 308,197	**$ 8,629,517**
Total Development Cost (TDC)		$ 986.44	$ 3,875,292	**$ 108,508,189**

Net Operating Income		Per Unit/Mo.	Per NSF/Unit/Mo.	Annual
Gross Apartment Rental Income				
Market Rate Apartments[2]		$ -	$ -	$ -
Affordable Apartments (Very Low-Income)[3]		$ 516	$ 0.64	$ 173,304
Miscellaneous Revenue[8]		$ 25	$ 0.03	$ 8,400
Gross Income		$ 541	$ 0.67	$ 181,704
Less: Vacancy Allowance[8]	5.0%	$ (27)	$ (0.03)	$ (9,085)
Effective Gross Income (EGI)		$ 514	$ 0.64	$ 172,619
Less: Annual Operating Expenses (x EGI)[8]	35.0%	$ (180)	$ (0.22)	$ (60,417)
Less: Replacement Reserve (per unit/year)[8]	$150	$ (13)	$ (0.02)	$ (4,200)
Net Apartment Income		$ 321	$ 0.40	$ 108,002

		Per NSF//Mo	Annual
Gross Retail Rental Income (NNN)[2]		$ 5.00	$ 5,103,333
Less: Vacancy Allowance (x Gross Income)[8]	5%	$ (0.25)	$ (255,166.67)
Effective Gross Income (EGI)		$ 4.75	$ 4,848,167
Less: Management Fee (x EGI)[8]	3%	$ (0.14)	$ (145,445)
Net Commercial Income		$ 4.61	$ 4,702,722
Net Operating Income (NOI)		$ 3.64	**$ 4,810,724**

Feasibility		
Return on Total Development Cost		
Net Operating Income (from above)		$ 4,810,724
Total Development Cost (from above)		$ 108,508,189
Return on Cost (NOI / TDC)		4.4%
Feasible?		**NO**
(Minimum = Weighted Average Cap Rate + 1 00% = 6.2%)[9]		
Developer Profit Margin		
Net Operating Income (from above)		$ 4,810,724
Weighted Average Cap Rate [12]	5.2%	
Project Value (NOI x Cap Rate)		$ 89,337,564
Less: Cost of Sale[8]	1.0%	$ (893,376)
Net Project Sale Value		$ 88,444,188
Less: Total Development Cost (from above)		$ (108,508,189)
Developer Profit Margin		**$ (20,064,000)**
% x Net Project Sale Value		-22.7%
Feasible?		**NO**
(Minimum = 12.5%)[8]		

SOURCES & NOTES:

[1] Townscape Partners.

[2] HR&A, based on a review of market comps for high-end retail on prime commercial corridors within relevant, nearby submarkets.

[3] LA Housing & Community Investment Dept. affordable rent schedule for Density Bonus program (Schedule VI), August 1, 2015, net of utility allowances, per Housing Authority of the City of Los Angeles.

[4] Townscape Partners-reported 2012 sale price. HR&A's review of comparable land sales for that period finds a range of prices between $400 and $600 PSF, suggesting that his price is reasonable and likely significantly below current market value.

[5] HR&A estimate of weighted retail and residential costs based on Marshall & Swift Cost Estimator software, June 2015 data for LA area. Includes demolition, some site work, and assumes an above-average quality, but factored to remove soft costs listed separately.

[6] HR&A estimate of parking costs based on Marshall & Swift Cost Es imator software, June 2015 data for LA area. Assumes subterranean parking at $100 per GSF, structured parking at $70 per GSF and 425 square feet per space.

[7] HR&A estimate of additional site work costs due to the significant amount of soil to be excavated and exported to Irwindale, CA, based on Marshall & Swift Cost Estimator software, June 2015 data for LA area.

[8] HR&A assumptions typical for this type of project and/or calculations.

[9] Townscape Partners. Includes buyout of 8 tenants, including 2 major na ional/regional fast food chains and miscellaneous other retail.

[10] Townscape Partners. Includes consideration of entitlement uncertainties and the high degree of litiga ion risk associated with major developments within he Hollywood Community Plan area.

[11] HR&A. Assumes a 3% broker commission on 5-year term commercial leases and 1.5% commission on 5-year lease renewals and marketing costs for both residential units and commercial space.

[12] Blended 5.4% retail and 4.2% multifamily cap rate, based on HR&A review of third party data sources (e.g., CoStar data for sale of similar buildings within relevant, nearby submarkets since 2012).

Prepared by: HR&A Advisors, Inc.

Attachment D
8150 Sunset Blvd. Project
Financial Feasibility, With Affordable Housing Incentives
with Off-Menu FAR Incentive and Retail

	With Affordable Housing Incentives	
	Per Unit	Total
Development Program[1]		
Land Area (sf)	447	111,339
Gross Building Area (GSF)	1,341	333,903
FAR (based on GSF)		3.0
Rentable Area - Residential (NSF)	768	191,324
Rentable Area - Commercial (NSF)		110,000
Building Efficiency		90 2%
Apartments		
Market Rate		221
Affordable		28
Total Units		249
Subterranean Parking		649
Levels		4
Structured Parking		200
Residential & Commercial Spaces		849
Total Residential & Commercial Parking	3.41	849

Unit Mix[1]	Number	Net Rentable SF	Mo. Rent/NRSF	Mo. Rent	Total Mo. Rent
Market Rate [2]					
Studio	64	610	$5.75	$3,508	$ 224,480
1 Bedroom	115	725	$6.00	$4,350	$ 500,250
2 Bedroom	34	1,075	$6.25	$6,719	$ 228,438
3 Bedroom	8	1,325	$6.50	$8,613	$ 68,900
	221				$ 1,022,068
Affordable [3]					
Studio	8	610	$0.76	$463	$ 3,704
1 Bedroom	15	725	$0.72	$520	$ 7,800
2 Bedroom	4	1,075	$0.54	$576	$ 2,304
3 Bedroom	1	1,325	$0.48	$634	$ 634
	28				$ 14,442

Land	Per Land SF	Per Unit	Total
Land Acquisition[4]	$ 305	$ 136,546	$ 34,000,000
Subtotal Land	$ 305	$ 136,546	**$ 34,000,000**

Construction[5]		Per Bldg./GSF	Per Unit/Space	Total
Hard Construction-Buildings (weighted average for all components)		$ 267	$ 357,667	$ 89,059,035
Hard Construction-Structured Parking (per space)[6]			$29,750	$ 5,950,000
Hard Construction-Subt. Parking (per space)[6]			$42,500	$ 27,582,500
Hard Construction-Sitework (x Excavation Cu. Yard)[7]	$75			$ 4,387,500
Hard Construction-Site Improvements (x Open Area SF)	$50			$ 4,172,650
Tenant Improvements Allowance (x Retail NSF)[8]	$50	$ 16		$ 5,500,000
Hard Cost Contingency (x Subtotal)[7]	5%	$ 20	$ 27,440	$ 6,832,584
Subtotal Construction		$ 430	$ 576,242	**$ 143,484,270**

Soft Costs[8]		Per GSF	Per Unit	Total
Design, Engineering & Consulting Services (x Hard Costs)	10.0%	$ 42.97	$ 57,624	$ 14,348,427
Permits & Fees (x Hard Costs)	4.0%	$ 17.19	$ 23,050	$ 5,739,371
Taxes, Insurance, & Accounting (x Hard Costs)	2.0%	$ 8.59	$ 11,525	$ 2,869,685
Development Management (x Hard Costs)	5.0%	$ 21.49	$ 28,812	$ 7,174,213
Tenant Buyouts[9]		$ 15.27	$ 20,482	$ 5,100,000
EIR, Legal, & Public Outreach[10]		$ 8.09	$ 10,843	$ 2,700,000
Leasing Commisions[11]		$ 6.39	$ 8,568	$ 2,133,500
Soft Cost Contingency (x Subtotal)	3.0%	$ 3.60	$ 4,827	$ 1,201,956
Subtotal Soft Costs	28.8%	$ 123.59	$ 165,732	**$ 41,267,153**

Construction Financing Costs[8]		Per GSF	Per Unit	Total
Land + Hard Costs + Soft Costs	$ 218,751,422			
Loan to Cost Ratio	80%			
Construction Loan Principal	$ 175,001,138			
Loan Fees (%)	2.0%	$ 10.48	$ 14,056	$ 3,500,023
Interest Rate	6.00%			
Outstanding Principal Balance	60%			
Term (years)	2			
Construction Period (months)	24			
Construction Loan Interest		$ 37.74	$ 50,603	$ 12,600,082
Permanent Loan Points	2.0%	$ 10.48	$ 14,056	$ 3,500,023
Subtotal Construction Loan		$ 58.70	$ 78,715	**$ 19,600,127**
Total Development Cost (TDC)		$ 713.83	$ 957,235	**$ 238,351,550**

Net Operating Income		Per Unit/Mo.	Per NSF/Unit/Mo.	Annual
Gross Apartment Rental Income				
Market Rate Apartments[2]		$ 4,625	$ 6.03	$ 12,264,810
Affordable Apartments (Very Low-Income)[3]		$ 516	$ 0.68	$ 173,304
Miscellaneous Revenue[8]		$ 50	$ 0.07	$ 149,400
Gross Income		$ 4,213	$ 5.48	$ 12,587,514
Less: Vacancy Allowance[8]	5.0%	$ (211)	$ (0.27)	$ (629,376)
Effective Gross Income (EGI)		$ 4,002	$ 5.21	$ 11,958,138
Less: Annual Operating Expenses (x EGI)[8]	35.0%	$ (1,401)	$ (1.82)	$ (4,185,348)
Less: Replacement Reserve (per unit/year)[8]	$250	$ (21)	$ (0.03)	$ (62,250)
Net Apartment Income		$ 2,581	$ 3.36	$ 7,710,540

		Per NSF//Mo	Annual
Gross Retail Rental Income (NNN)[2]		$ 5.50	$ 7,260,000
Less: Vacancy Allowance (x Gross Income)[8]	5%	$ (0.28)	$ (363,000)
Effective Gross Income (EGI)		$ 5.23	$ 6,897,000
Less: Management Fee (x EGI)[8]	3%	$ (0.16)	$ (206,910)
Net Commercial Income		$ 5.07	$ 6,690,090
Net Operating Income (NOI)		$ 3.59	**$ 14,400,630**

Feasibility		
Return on Total Development Cost		
Net Operating Income (from above)		$ 14,400,630
Total Development Cost (from above)		$ 238,351,550
Return on Cost (NOI / TDC)		**6.0%**
Feasible?		**YES**
(Minimum = Weighted Average Cap Rate + 1.00% = 5.7%)[9]		

Developer Profit Margin		
Net Operating Income (from above)		$ 14,400,630
Weighted Average Cap Rate[12]	4.7%	
Project Value (NOI x Cap Rate)		$ 307,017,678
Less: Cost of Sale[8]	1.0%	$ (3,070,177)
Net Project Sale Value		$ 303,947,501
Less: Total Development Cost (from above)		$ (238,351,550)
Developer Profit Margin		**$ 65,595,952**
% x Net Project Sale Value		**21.6%**
Feasible?		**YES**
(Minimum = 12.5%)[8]		

SOURCES & NOTES

[1] Townscape Partners.

[2] HR&A, based on a review of market comps for large, very high-end new construction apartment buildings and retail in the Los Angeles area and an analysis of rent premiums associated with highly-amenitized, luxury buildings.

[3] LA Housing & Community Investment Dept. affordable rent schedule for Density Bonus program (Schedule VI), August 1, 2015, net of utility allowances, per Housing Authority of the City of Los Angeles.

[4] Townscape Partners-reported 2012 sale price. HR&A's review of comparable land sales for that period finds a range of prices between $400 and $600 PSF, suggesting that this price is reasonable and likely significantly below current market value.

[5] HR&A estimate of weighted retail and residential costs based on Marshall & Swift Cost Estimator software, June 2015 data for LA area. Includes demolition, some site work, and assumes an above-average quality, but factored to remove soft costs listed separately.

[6] HR&A estimate of parking costs based on Marshall & Swift Cost Estimator software, June 2015 data for LA area. Assumes subterranean parking at $100 per GSF, structured parking at $70 per GSF and 425 square feet per space.

[7] HR&A estimate of additional site work costs due to the significant amount of soil to be excavated and exported to Irwindale, CA, based on Marshall & Swift Cost Estimator software, June 2015 data for LA area.

[8] HR&A assumptions typical for this type of project and/or calculations.

[9] Townscape Partners. Includes buyout of 8 tenants, including 2 major national/regional fast food chains and miscellaneous other retail.

[10] Townscape Partners. Includes consideration of entitlement uncertainties and the high degree of litigation risk associated with major developments within the Hollywood Community Plan area.

[11] HR&A. Assumes a 3% broker commission on 5-year term commercial leases and 1.5% commission on 5-year lease renewals and marketing costs for both residential units and commercial space.

[12] Blended 5.4% retail and 4.2% multifamily cap rate, based on HR&A review of third party data sources (e.g., CoStar data for sale of similar buildings within relevant, nearby submarkets since 2012).

Prepared by: HR&A Advisors, Inc.

RSG
BETTER COMMUNITIES. BOLDER FUTURES.

RSG, INC.
309 WEST 4TH STREET
SANTA ANA, CALIFORNIA
92701-4502

T 714 541 4585
F 714 541 1175
E INFO@WEBRSG.COM
WEBRSG.COM

Via Electronic Mail

Date: April 21, 2016

To: Tyler Siegel
AG-SCH 8150 SUNSET BOULEVARD OWNER, L.P.

From: Jim Simon, Principal
Dominique Clark, Associate
RSG, INC.

SUBJECT: 8150 SUNSET BLVD. PROJECT FINANCIAL FEASIBILITY ANALYSIS PEER REVIEW

Per your request, RSG, Inc. ("RSG") reviewed HR&A Advisors, Inc.'s (HR&A) financial feasibility analysis of a mixed-use density bonus project ("Project") proposed by AG-SCH 8150 Sunset Boulevard Owner, L.P. ("Developer"). The Project site consists of two parcels totaling 2.6 acres located at 8142-8148 West Sunset Boulevard in the City of Los Angeles ("City"). The parcels are currently improved with commercial buildings. The proposed development program entails the following components:

- 249 multi-family rental units, including 28 units restricted to very low-income households;
- 110,000 leasable square feet of retail;
- 649 spaces in a four-level subterranean parking garage;
- 200 spaces in an above-grade parking garage; and
- Various on-site amenities, including an event terrace, a roof garden, open space, private terraces, a pool, and a spa.

Our understanding is that the Developer will submit a request to the City's Department of City Planning ("Planning Department") for an "off-menu" incentive allowing a 3.0 floor area ratio (FAR), in lieu of the allowable 1.0 FAR. To comply with the City's requirements for density bonus applicants requesting off-menu incentives, the Developer will provide the Planning Department (1) HR&A's analysis, which demonstrates that the off-menu 3.0 FAR incentive is necessary for the inclusion of the 28 affordable housing units to be economically feasible, and (2) this memo summarizing the findings of RSG's peer review of HR&A's analysis.

Executive Summary

Based on our peer review of HR&A's analysis, our conclusions are as follows:

- **We concur with HR&A's finding that the Project is financially feasible with the requested off-menu 3.0 FAR incentive**, because it would yield a return on total development cost and a developer profit margin that we believe are sufficiently high to attract market investment.

- **We concur with HR&A's finding that the Project is not financially feasible without the requested off-menu 3.0 FAR incentive**, because it would not yield either a return on total development cost or a developer profit margin that we believe are acceptable in the market.

Analysis

Development Programming Scenarios With and Without 3.0 FAR Off-Menu Incentive

Summary of HR&A Assumptions. HR&A used the Developer's current development program as the development programming scenario with the requested off-menu 3.0 FAR incentive. The Developer proposes to develop 333,903 square feet of new floor area, including 249 residential apartment units averaging 768 square feet each and 110,000 square feet of retail. Of the 249 residential units, 28 would be restricted to very low-income households. The Project would also include 849 spaces in a subterranean parking garage and an above-grade parking garage, as well as various on-site amenities.

Without the requested off-menu incentive, the developer would be limited to constructing a significantly smaller project. The gross building area would be reduced from 333,903 square feet to 110,000 square feet in order to comply with the 1.0 FAR limit. In this scenario, HR&A's analysis assumes that retail would be the highest and best use for the site, and thus eliminates all of the residential units with the exception of the 28 very low-income units averaging 802 square feet each. Additionally, the retail square footage is reduced from 110,000 to 85,056. Because the number of required parking spaces is directly correlated to the number of bedrooms and square footage of retail in the Project, the number of parking spaces provided in the parking garages is also decreased in this scenario – from 649 to 250 in the subterranean garage and from 200 to 160 in the above-grade garage.

Findings of RSG's Peer Review. RSG believes that HR&A's development programming assumptions for each scenario are reasonable, given that (1) the City requires the analysis to assume that the same number of affordable units (in this case, 28) are included in each scenario and (2) retail is the highest and best use for the site under by-right zoning, as HR&A concludes. We did note that the analysis assumes that the development programming scenario without the requested off-menu 3.0 FAR incentive would also omit the Developer's requested on-menu flexible parking incentive; we believe this is defensible given the details of the Project. It is our understanding that the City generally expects the analysis to compare the feasibility of the Project with the requested off-menu incentives to the feasibility of the Project without the requested off-menu incentives and that any requested on-menu incentives should be assumed in both scenarios. For this project however, the development programming scenario with the requested off-menu incentive relies so heavily on the off-menu 3.0 FAR incentive that the on-menu flexible parking incentive does not have much value without the 3.0 FAR incentive. Furthermore, the flexible parking allowance incentive does not apply to retail uses, which is the primary use in the scenario with a 1.0 FAR.

Development Costs

Summary of HR&A Assumptions. HR&A's development cost estimates incorporate the following assumptions:

- Land Acquisition Costs: $305 per square foot of land, which was the 2012 sale price as reported by the Developer

- Hard Construction Building Costs: $200 per square foot of retail and $300 per square foot residential

- Hard Construction Parking Costs: $42,500 per space in the subterranean garage and $29,750 per space in the above-grade garage

- Excavation and Exportation of Soil: $75 per cubic yard of soil excavated

- Site Improvements: $50 per square foot of open area

- Tenant Improvements Allowance: $50 per net square foot of retail

- Hard Cost Contingency: 5% of other hard costs

- Soft Costs: Either calculated by line item as a percentage of total hard costs or provided by the Developer, with the exception of the leasing commissions, which HR&A estimated based on an assumption of a 3% broker commission on 5-year term commercial leases and 1.5% commission on 5-year lease renewals and marketing costs for both residential units and commercial space

- Soft Cost Contingency: 3% of other soft costs

- Construction Financing Costs Assumptions:
    - 3.0 FAR Scenario: 2.0% loan fees, 6% interest rate, 24-month construction period
    - 1.0 FAR Scenario: 2.5 loan fees, 7% interest rate, 18-month construction period
    - Both Scenarios: 80% loan-to-cost ratio, 60% outstanding principal balance, and a two-year loan term

Findings of RSG's Peer Review. RSG believes that HR&A's development cost estimates and assumptions are reasonable. Our review included an analysis of HR&A's methodology of differentiating between the hard and soft costs inherent in the residential and retail hard cost estimates sourced from Marshall & Swift Cost Estimate software ("Marshall and Swift"). In order to estimate soft costs independently from Marshall and Swift while preventing double counting, HR&A assumed that about 20% of Marshall & Swift's estimates are attributed to softs costs and then deducted this 20%. RSG believes that this approach yields development cost estimates that are reasonable.

Net Operating Income

Summary of HR&A Assumptions. HR&A's net operating income estimates incorporate the following assumptions:

- Market-Rate Apartment Rents: $5.75 - $6.50 per square foot
- Very Low-Income Apartment Rents: Based on the City Housing and Community Investment Department's affordable rent limits schedule for density bonus projects (effective August 1, 2015) and net of select utility allowances per the City's Housing Authority utility allowance schedule for multi-family residential housing (effective December 1, 2015)
- Residential Miscellaneous Income: $50 per unit per month with 3.0 FAR and $25 per unit per month with 1.0 FAR
- Residential Vacancy Allowance: 5% of gross rental income
- Residential Operating Expenses: 35% of effective gross income
- Residential Replacement Reserve: $250 per unit per year with 3.0 FAR and $150 per unit per year with 1.0 FAR

- Retail Income: $5.50 per net square foot with 3.0 FAR and $5.00 per net square foot with 1.0 FAR
- Retail Vacancy Allowance: 5% of gross income
- Retail Management Fee: 3% of effective gross income

Findings of RSG's Peer Review. RSG believes that HR&A's net operating income estimates are generally reasonable. Three details worth noting, none of which are material to our conclusion that the Project is financially feasible with 3.0 FAR and financially infeasible with 1.0 FAR, are as follows:

1. As explained in HR&A's memo, the assumptions regarding the market-rate rents are heavily weighted on the rents at one luxury property, 8500 Burton Way. Based on RSG's research, the rents at 8500 Burton Way are significantly higher than other apartments built since 2014 in the Hollywood submarket. Per RSG's conversations with HR&A, HR&A's rent assumptions are based on the Developer's belief that 8500 Burton Way is the only true comparable to the Project in terms of location and the level of amenities and services. If overstated, lower market rents would result in diminishing the feasibility of both scenarios, and not unfairly understate the viability of the Project without the off-menu incentive.

2. Because the residential operating expenses are calculated as 35% of effective gross income, which varies dramatically between the scenario with 3.0 FAR and 221 market-rate units and the scenario with 1.0 FAR and no market-rate units, the total residential operating expenses on a per unit basis vary dramatically between the scenarios - $16,800 per unit with 3.0 FAR and $2,200 per unit with 1.0 FAR. Overall, we believe that the actual operating expenses would be lower on the scenario with the off-menu incentive, but much higher in the scenario without the off-menu incentive. Adjusting these operating expenses would actually widen the gap between the two scenarios, making the Project less feasible without the off-menu incentives.

3. The analysis does not include revenue from the retail parking spaces, based on the assumption that 100% of the retail parking will be validated by the associated businesses. This assumption may be understating some parking revenue for patrons that visit longer than a typical two to three-hour validation window, but would only generate a modest amount of additional income and not affect the overall feasibility findings.

Financial Feasibility Analysis

Summary of HR&A Assumptions. HR&A's financial feasibility analysis incorporates the following assumptions:

- <u>Threshold for Return on Total Development Cost</u>: 5.7% with 3.0 FAR, 6.2% with 1.0 FAR
- <u>Threshold for Development Profit Margin</u>: 12.5%
- <u>Cap Rate</u>: 4.7% with 3.0 FAR, 5.2% with 1.0 FAR
- <u>Cost of Sale</u>: 1% of project value

Findings of RSG's Peer Review. <u>RSG believes that the assumptions incorporated in HR&A's financial feasibility analysis are reasonable.</u> RSG confirmed that these assumptions align with current market realities.