APPENDIX A

Economic Feasibility Study
June 25, 2010

Mr. Joseph Flanagan
Red Oak Investments, LLC.
2101 Business Center Drive, Suite 230
Irvine, CA 92612

Subject: Adams & Figueroa Multi-family project
Los Angeles, CA
Feasibility analysis of EIR alternatives

Dear Mr. Flanagan:

Pursuant to your request, Tierra West Advisors, Inc. ("Tierra West") has analyzed the feasibility of the alternatives discussed under the Figueroa and Adams Student Housing Project Draft EIR dated May 2009 ("Draft EIR"). This report summarizes the results of our analysis.

**Background**
Capital Oak Venture ("Developer") has proposed the development of a 145 unit residential apartment project ("Project") intended to serve the students attending nearby educational institutions, including the University of Southern California ("USC"). Other nearby institutions include Mount St. Mary's College ("Mount St. Mary's"), the Los Angeles Trade Tech College ("LA Trade Tech") and the Fashion Institute of Design and Marketing ("FIDM"). The Developer has purchased a 1.7 acre parking lot from Saint Vincent De Paul Roman Catholic Church ("St. Vincent's"), which is the site of the Project. However, the purchase from St. Vincent's obligated the Developer to provide 125 replacement parking stalls for St. Vincent's, in addition to paying the price for the land. Following the purchase, the Developer has spent several years in the City of Los Angeles entitlement process while it continues to incur carrying costs for the land.

The City of Los Angeles Planning Department ("City") has commissioned the preparation of an Environmental Impact Report to study the environmental impacts of the Project in accordance with the California Environmental Quality Act ("CEQA"). As is typical, the Draft
EIR considered alternatives to the proposed Project in order to analyze options for meeting the goals of the Project that might have different environmental impacts. The alternatives analyzed are Alternative 1 — No Project/No Development Alternative, Alternative 2 — Reduced Density Alternative, and Alternative 3 — Mixed Use Alternative.

The City also considered 2 other alternatives: Alternative 4 — Alternate Site Alternative, and Alternative 5 — Reduced Shading Alternative. In the Draft EIR, these last two alternatives were rejected. For the Final EIR, the City has requested information as to the financial feasibility of the Reduced Density and Reduced Shading Alternative in comparison to the Developer’s preferred project design.

Though the Proposed Project recommended in the Draft EIR was 127,800 square feet with 145 units, in the Final EIR a Reduced Mitigated Project is recommended which reduces the square footage to 117,897 square feet and reduces the units to 137. Accordingly, this report evaluates the financial feasibility of the Proposed Project and the Mitigated Project in comparison to the Reduced Density and Reduced Shading Alternatives.

**Materials Reviewed:**
Tierra West reviewed the following materials as part of its analysis of the alternatives:

- Various architectural plans, schematics, and renderings prepared by the architectural firm of Van Tilburg, Banvard & Soderbergh AIA dated January 2008
- Additional information on the Mitigated Project dated spring 2010, prepared for the Final Environmental Impact Report
- The City's January 4, 2008 Notice of Preparation Environmental Impact Report and Notice of Public Scoping Meeting
- Section VI of the Draft EIR dated May 2009 and prepared by Impact Sciences Inc.
- Data on nearby competitive apartment projects.
Analysis
The current real estate market in Southern California is in a severely depressed state, with residential properties having dropped in value by approximately 40% since their peak in 2007. Financing has tightened, with many developers having a difficult time raising debt and equity at rates which would make new development feasible. Many investors are foregoing new development in favor of acquiring distressed properties available through banks. Many banks have foreclosed upon properties, mostly residential units, and taken them in as Real Estate Owned ("REO"). Many other properties are in default and being marketed as 'short sales', whereby banks take the proceeds from a sale, which may be less than the amount originally owed.

Nevertheless residential properties near USC and catering to students seem to be in high demand, with landlords collecting rents which may be nearly twice as high as rents quoted for properties which do not enjoy proximity to the University.

In this challenging economic environment, developers who are pursuing entitlements for new developments are generally looking past the current market conditions and anticipating a more favorable outlook in the future. Such developers, were they to seek capital in the current environment, would need to provide a more profitable project than the financial markets would have required 3 years ago.

As indicated earlier, the higher demand for student housing around the USC campus may provide better prospects for financial feasibility than the market is generally providing due to the higher rents that can be provided for the units. Landlords appear to be charging students rents of between $700 and $1,200 per student per month, and providing for 2 students per bedroom. Therefore, a 2-bedroom unit of approximately 900 square feet could achieve approximately $3,600 per unit per month during the school year, or approximately $4.00 per square foot per month. By comparison, recently restored live/work lofts in downtown Los Angeles such as at the Pacific Electric Lofts are currently asking $2.10 per month, down from approximately $2.40 per square foot per month 18 months ago.

Student housing will have higher operating expenses due to the higher occupancy and needs of the students. The students require broadband internet access, higher electricity usage, and more on-site activities and amenities such as fitness facilities. In addition, the students would provide more wear and tear on the property, requiring more maintenance and repairs.

Another consideration is the seasonality of the demand. There would be high demand for the units during the school year, from September through June, but low demand during the summer.
Considering the above, Tierra West prepared an operating proforma incorporating the assumptions outlined above. (Because this proforma includes detailed and proprietary financial information, it is not attached, but will be made available for City decision maker review upon request.) The assumptions utilized in this Base Case proforma include the following:

- Rents of $1,050 to $1,100 per student for 1-bedroom units, between $975 and $1,000 per student for 2-bedroom units, and between $900 and $925 per student for 3-bedroom units. By comparison, rents for the 2010-2011 year have fallen as the newest project is having trouble leasing up at $900 per bed/month. However Tierra West is assuming that the market will improve by the time the Developer completes the project.

- 90% average occupancy based upon the Developer signing 1-year leases with the tenants, which would include the summer months as well as the school year.

- Parking revenue averaging $40 per stall per month for 435 stalls, including the St. Vincent's stalls. This may be achieved by collecting approximately $67 per stall per month for all stalls other than St. Vincent's for 10 months out of the year.

- Miscellaneous income of $50 per unit per month. This would include above standard broadband services and vending machine income. This compares to a typical figure of approximately $10 per unit per month for general population apartments. Some student housing operators have this included in the rent.

- Operating expenses of $10,500 per unit per year. This compares to typical assumptions of approximately $6,500 per unit per year for market rate apartments and approximately $4,500 per unit per year for affordable apartments with a non-profit owner. The operating expenses would include a reserve for replacements of $450 per unit per year.

- Loan underwriting providing a permanent loan at the lower of (a) a loan to value ratio of 65%, or (b) a debt coverage ratio of 1.25 based upon a 30 year amortization and a fixed rate interest rate of 7.00%. Debt Coverage ratio is arrived at by dividing the net operating income by the debt service, to provide a cushion for the landlord between the net income from the project and the debt service payments.

- Capitalization Rate of 6.50% to estimate completed project value. The capitalization
rate is essentially the net cash flow from the project divided by the investor's cost of the project if the investor acquired the investment on an all-cash basis and had no debt service. It would essentially be the equivalent of a dividend yield if the investment were acquired on an all-cash basis.

- Tierra West has evaluated the 145 unit project based upon the assumptions outlined above.

On the cost side, Tierra West has made the following assumptions:

- Land cost of $6.5 million for the 1.7 acre site
- Site work and Site common area costs of $5 per square foot.
- Shell construction cost of $100 per square foot, excluding the parking area.
- Interior Improvements of $25 per square foot.
- Parking structure average cost of $38,500 per stall.
- Architecture and engineering of 5% of the hard construction costs, or approximately $1.9 million.
- An allowance for permits and development impact fees of $15 per square foot, and school fees of $2.75 per square foot.
- An allowance for the Environmental Impact Report and entitlement costs of $1,000,000
- A construction loan of approximately $36.6 million at 6.50% with a 24 month term.
- Based upon our assumptions, including those above, we have estimated soft costs and total development costs.

Based upon these assumptions, the project would generate a profit. Considering the economic conditions existing at the time of this report, the risks associated with this project, the extended time period for entitlements and construction, and the potential profit, the project would provide a competitive return on capital, in the opinion of Tierra West. The Proposed Project exceeds the minimum thresholds which are assumed to be necessary to obtain financing, given the modest returns alternative investments currently provide, and would be deemed to be financially feasible based on that comparison for financial feasibility.
Alternative 2 — Reduced Density Alternative

The Draft EIR, under the Project Alternatives section, page VI-5, discussed the comparable environmental impacts of a Project that was 30% smaller. Comparison of the Developer's proposal and Alternative 2 is as follows:

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<thead>
<tr>
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<th>Developer's proposal</th>
<th>Alternative 2 - Reduced Density</th>
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<tbody>
<tr>
<td>Number of Units</td>
<td>145</td>
<td>102</td>
</tr>
<tr>
<td>stories</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Residential Floor area</td>
<td>131,009</td>
<td>91,706</td>
</tr>
<tr>
<td>Residential parking spaces</td>
<td>310</td>
<td>217</td>
</tr>
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Although the residential parking stalls would be reduced from 310 to 217, the Developer would still be required to provide the 125 replacement stalls to St. Vincent's. These stalls are called for under the purchase agreement between the Developer and St. Vincent's, a deal which has already closed. Therefore it is likely that St. Vincent's would hold the Developer to this requirement, notwithstanding any negative impact it might impose upon the financial feasibility of the Project.

Tierra West has prepared financial projections for Alternative 2. The assumptions under Alternative 2 are the same as under the projections for the Developer's proposal, except that those costs that can be reduced because of the smaller size of the project have been reduced.

As a result of these reductions, the major fixed costs of land, parking, site work, and demolition are spread over a smaller base of income earning units. This drives up the development costs per unit, without increasing the value per unit, making the Project less profitable. Tierra West's projections indicate that internal rate of return and the capitalization rate are significantly below those of the Base Case achieved upon completion of construction and lease up.

These projections and results indicate that the Project would be less feasible than the Base Case in the current capital markets, given the costs, risks, and potential profits from the development of the Project. The fact that under both the Base Case and Alternative 2 the Project relies on inflation in rent and Project value to improve the return on equity increases the risk of the Project. In the current financial environment, with investors demanding higher profits to offset perceived risks, Tierra West expects that development projects would need to demonstrate an attractive profit upon stabilization, and not rely on inflation, to attract capital.
Alternative 3 — Mitigated Project

Tierra West analyzed the financial feasibility of the Mitigated Project, which would be slightly reduced in size from the Base Case Developer proposal. Comparison of the Mitigated Project and the Base Case indicate the following:

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<thead>
<tr>
<th></th>
<th>Developer's proposal</th>
<th>Mitigated Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Units</td>
<td>145</td>
<td>137</td>
</tr>
<tr>
<td>stories</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Residential Floor area</td>
<td>131,009</td>
<td>117,897</td>
</tr>
<tr>
<td>Residential parking spaces</td>
<td>310</td>
<td>270</td>
</tr>
</tbody>
</table>

Similar to the impact of Alternative 2 – The Reduced Density Alternative, the fixed expenses spread over a reduced number of income generating units reduces the profitability as compared to the Base Case. However the Mitigated Project is more profitable, and therefore more financially feasible, than the Reduced Density Alternative. Whereas, in Tierra West’s opinion, given the current capital markets, the Base Case provides a marginally profitable investment, the Mitigated Project is thinner still, yet may be able to attract capital. However the returns from the Reduced Density Alternative may be too low to attract capital. The reduction in rent over the past 2 years has made project feasibility more problematic, with the Mitigated Project testing the threshold for feasibility.

Alternative 4 - Reduced Shading Alternative

As indicated earlier, the Draft EIR considered a Reduced Shading Alternative, which reduced the number of units to 50 from the Developer’s original proposal of 145. As mentioned under the discussion of both the Mitigated Project and the Reduced Density Alternative, the project has significant fixed expenses which, when spread over a smaller number of units, reduces the financial feasibility of the development. Whereas the Developer’s Base Case proposal was marginally feasible, and the Mitigated Project likely to be feasible but less profitable than the Base Case, the Reduced Shading Alternative would not be feasible. The fixed expenses, particularly the requirement to provide 125 replacement parking stalls to St. Vincent’s at no additional costs, would be too much of a burden to bear for such a small project.
Summary

- The current real estate market is very depressed, making it difficult for developers to attract capital for new projects.

- The area near USC experiences higher rents than other areas of Los Angeles due to the demand from students attending USC and other nearby educational institutions.

- The subterranean parking configuration and obligation to provide replacement parking to St. Vincent's adds to the costs for the Project compared to more conventional development programs.

- The proposal by the Developer (145 units) is the most financially feasible (least infeasible) of the alternatives considered in the Draft EIR.

- The Mitigated Project (137 units) is less feasible than the Developer’s proposal but more feasible than Alternative 2, the Reduced Density Alternative (102 units).

- The Reduced Shading Alternative is not financially feasible.

Thank you for the opportunity to review the alternatives discussed in the Draft EIR. We will make ourselves available for discussion if this will assist in the consideration of the Project.

Respectfully,

TIERRA WEST ADVISORS, INC.

Tim Mulrenan
Principal