



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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To: Cynthia Battenberg
City of San Leandro

From: Keyser Marston Associates, Inc.

Date: May 1, 2012

Subject: Village Marketplace

Summary

Keyser Marston Associates, Inc. estimated the land value of the site for the proposed Village Marketplace. Based on a financial analysis of the specific project required by the Developer to construct, KMA estimates the fair reuse value for the site to be \$2,170,000.

Background

The City of San Leandro ("City"), in its capacity as Successor Agency to the Redevelopment Agency of the City of San Leandro, is currently negotiating a Disposition and Development Agreement (Agreement) with Innisfree Ventures II ("Developer") regarding 1550 East 14th Street ("Site"), the site of the former Albertsons grocery store. The Site is also identified as Assessor's Parcel No. 077-0540-009, that contains approximately 73,359 square feet (1.73 acres). The City currently owns the Site.

Under the Agreement, the Developer agrees to develop a retail project ("Project") on the Site in accordance with the terms and conditions of the Agreement and in compliance with the terms and conditions of all approvals, entitlements and permits that the City or any other governmental body or agency with jurisdiction over the Project or the Property has granted or issued in connection with development of the Project, including all mitigation measures imposed in connection with environmental review of the Project and all conditions of approval imposed in connection with any entitlements, approvals or permits.

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The Project will consist of the development of a first-class retail project constructed with high quality building materials, which will include public amenities including a fountain, outdoor dining areas, high-quality façade improvements, landscaping, paving and signage. Current design concepts for the Village Marketplace, as the planned retail center is known, envision a high-quality, Mediterranean-style neighborhood retail center of roughly 28,000 square feet, anchored by a specialty grocery store. As part of the Project, Developer will construct, at Developer's expense, a public art component that may include a fountain, sculpture, mural or other art form. Developer will also reconstruct the sidewalks surrounding the Property, will add street trees along East 14th Street, and will replace street trees on Dolores Avenue and Juana Avenue as detailed in the approved Site Improvement Plans for the Project. The Developer will also install and maintain bike racks on the Property, including multiple bike racks near the outdoor seating area to be created on the southeast corner of Juana and East 14th Street. The Agreement also requires the Developer to comply with the state prevailing wage laws.

The Agreement requires the Developer to ensure that a full-service restaurant is opened on the Property within the earlier of 24 months following the date upon which City issues a certificate of occupancy, or 48 months following the effective date of the Agreement. The approximate size of the restaurant is 3,995 sq. ft. This requirement results in the developer funding additional tenant improvements.

Also per the Agreement, Developer will commence construction of the Project not later than 120 days following the closing date, and Developer will diligently pursue the construction work to completion in order to allow City to issue a final certificate of occupancy within 18 months following commencement of construction, and no later than 24 months following the effective date of the Agreement.

Estimated Reuse Value/Residual Land Value

The reuse value of the site is defined as the highest price in terms of cash or its equivalent that a site or development right is expected to bring for a specified use in a competitive open market, subject to the covenants, conditions, and restrictions imposed by the Agreement. The Agreement contains specific covenants and conditions designed to ensure that the conveyance of the Property will be carried out in a manner to achieve the City's objectives, standards, and criteria.

KMA estimated the reuse value of the Site based on the anticipated development economics of the proposed Project. The private investment supported by the anticipated income is compared with the estimated development costs. The analysis uses the

estimated development costs and revenues provided by the Developer. KMA has evaluated the costs and revenues for reasonableness.

Tables 1 and 2 present KMA's residual land value analysis for the proposed Project. There are several important considerations in the analysis, including:

1. The Developer is required to construct a first class, signature commercial/retail development that incorporates high quality features, including a public art component, streetscape improvements, and a full service restaurant.
2. Development of the Project must occur shortly after conveyance of the Property. Speculation by holding the land and not developing is not allowed. The Project must be completed no later than 24 months after the execution of the Agreement.

Development Costs

In estimating development costs, KMA reviewed the financial pro forma submitted by the Developer. KMA made various adjustments to the Developer pro forma based on our experience with similarly sized retail projects. As shown in Table 1, the development costs for the Project, excluding land acquisition, are estimated by the Developer to total approximately \$6,378,000. These costs include the following:

- Off-site improvement costs of \$500,000.
- Site improvement costs of \$556,000 or approximately \$7.40 per square feet of land area. This figure is net of tenant contribution. The total site improvement costs are approximately \$791,000.
- Direct costs, such as building shell, on-site improvements, and builder's overhead and profit, contingency and tenant improvements (see below), are estimated to total approximately \$4,171,000. These costs are inclusive of the requirement to pay prevailing wages during construction.
- Direct construction costs include a tenant improvement allowance of approximately \$724,000. Tenant improvements range from \$10 to \$30 per rentable square foot. Tenant improvements of \$125 per square foot are assumed for a new full-service restaurant.
- Indirect costs, such as architecture, engineering, public permits and fees, legal and accounting, taxes and insurance, marketing, leasing commissions, developer fee, and contingency are projected to be approximately \$1.4 million, or 30% of direct costs, including off site improvement costs.

- Financing costs, consisting of loan fees and interest during construction, are estimated to be \$307,000 or 6.57% of direct costs, including off site improvement costs. The estimated construction loan is \$5.5 million.

Net Operating Income

Table 2 presents the estimate of stabilized net operating income (NOI) estimated by the Developer. KMA reviewed the revenue projection and compared it to other similar projects with which we are familiar. The NOI projection of approximately \$704,280 reflects the following inputs provided by the Developer, which have been reviewed for reasonableness by KMA:

- The specialty grocery store will ground lease a pad on a long term basis.
- Rents for built space are projected to range from \$33 to \$42 per square foot.
- Rent including ground lease revenue is approximately \$735,190 per year.
- Allowance for vacancy and for operating expenses not recovered from the tenants is approximately \$30,910 per year. This estimate is 6% of rents from the in-line shops, excluding the anchor space.

The projected annual net operating income (NOI) is approximately \$704,280.

Reuse Value/Residual Land Value

The reuse land value supported by the Project can be estimated as the residual land value, which is the difference between the private investment supported and total development costs (exclusive of land acquisition) and Developer's profit. The residual land value for the Village Marketplace is estimated at \$2,170,000, as shown below:

- The private investment supported by the projected rents is approximately \$9,500,000. This is based on Net Operating Income (NOI) of approximately \$704,280 capitalized at 7.5 percent.
- Development costs, excluding land cost, are estimated at approximately \$6,378,000. This includes off-site improvements, direct and indirect costs and financing costs. See Table 1.
- Developer profit is estimated at approximately \$855,000, which is the equivalent of 10% of total development costs including land costs.

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Exhibit 1 – Reuse Land Value Analysis

	Value (Rounded)¹
Net Operating Income (NOI)	\$704,280
Cap Rate	7.5%
Capitalized Value (Rounded)	\$9,400,000
Less:	
Development Costs (excl. land)	(\$6,378,000)
Developer Profit (@ 10% of Total Costs ²)	<u>(\$855,000)</u>
	(\$7,233,000)
Estimated Reuse Land Value (Rounded)	\$2,170,000

¹ Numbers may not add up due to rounding.

² Developer Profit is calculated as 10% of total Development Costs including Land.

Table 1
Program and Development Costs
Village Marketplace
San Leandro, CA

I. Program

Building 2 (ground lease pad)	20,000	59%
Tenant 1	1,800	5%
Tenant 2	3,995	12%
Tenant 3	3,000	9%
Tenant 4	3,000	9%
Tenant 5	2,000	6%
Total Leasable Area (incl. ground lease pad)	33,795	
Net Rentable Space (SF) ¹	13,795	
Total number of parking spaces ²	103	
Parking Ratio (per 1,000sf)	3.05	
Site Area (SF)	75,359	

II. Development Costs

	<u>\$/RSF</u>	<u>Total ³</u>
Off-Site Improvements		
Total Off-Site Improvements		\$500,000
Direct Costs		
On-site improvements (net of tenant contrib.)	\$40	\$556,000
Construction - Building Shell	\$193	\$2,669,000
Contingency	\$16	\$222,000
Tenant Improvements	\$52	\$724,000
Total Directs	\$302	\$4,171,000
Indirect Costs		
Indirects Costs (30% of Direct and Off-Site Impr.)		\$1,400,000
Financing		
Construction Loan Int.		\$216,000
Fees		\$91,000
Total Financing		\$307,000
Total Development Costs (excl. Land)		<u><u>\$6,378,000</u></u>

¹ Excludes ground lease square footage.

² Based on 10/28/2011 Site Plan.

³ Totals may not add up due to rounding.

Table 2
Feasibility Analysis
Village Marketplace
San Leandro, CA

I. Income		
		Total
		<hr/>
Rents ¹		\$735,190
II. Operating Expenses		
Expenses	6.0% of Rents ²	(\$30,910)
III. NOI		
		<hr/>
		\$704,280
		<hr/>

¹ Based on Developer estimate and proforma dated 4/24/2012. Includes ground lease revenue.

² Based on rental income from tenants, other than ground lease.