BARRIO LOGAN REDEVELOPMENT PROJECT

SAN DIEGO, CALIFORNIA

SUMMARY PERTAINING TO THE PROPOSED SALE OF CERTAIN PROPERTY WITHIN THE BARRIO LOGAN PROJECT AREA

(California Community Redevelopment Law)
Section 33433

PURSUANT TO A PROPOSED
DISPOSITION AND DEVELOPMENT AGREEMENT
BETWEEN
THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO
AND
LA ENTRADA HOUSING INVESTORS, L.P.

Redevelopment Agency
of the
City of San Diego, California

JUNE 2006

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I. INTRODUCTION

The Redevelopment Agency of the City of San Diego, California (the "Agency") is considering the sale of a 1.61-acre site (Property) in the Barrio Logan Redevelopment Project. The terms of the sale of the Property are described in the proposed Disposition and Development Agreement (Agreement) between the Agency and La Entrada Housing Investors, L.P. (Developer).

The Property is located on Logan Avenue between Sigsbee and Beardsley streets in the northern portion of the Barrio Logan Redevelopment Project Area.

This Summary was prepared in accordance with Section 33433 of the California Community Redevelopment Law in order to inform the Agency and the public about the transaction. The Summary describes and specifies:

1. The costs to be incurred by the Agency under the Agreement;

2. The estimated value of the interests to be conveyed by the Agency to the Developer pursuant to the proposed Agreement determined at the highest and best uses permitted under the Barrio Logan Redevelopment Project;

3. The estimated value of the interest to be conveyed at the use and with the conditions, covenants, and development costs required by the sale;

4. The compensation to be paid to the Agency pursuant to the proposed transactions;

5. An explanation of the difference, if any, between the compensation to be paid to the Agency under the proposed transactions, and the fair market value at the highest and best use consistent with the Barrio Logan Redevelopment Project; and

6. An explanation of why the sale and development of the Site will assist with the elimination of blight.

II. COSTS OF THE AGREEMENT TO THE AGENCY

The estimated cost of the proposed Agreement include the following items: (1)

Acquisition costs	$8,500,000
Relocation costs	$1,000,000
Financial assistance to Developer	$3,667,000
Subtotal, Agency Loan	$13,167,000
Add: Administrative/Other Costs (2)	$150,000
Total Agency Costs	$13,317,000

(1) Source: Redevelopment Agency of the City of San Diego.

(2) Estimated third-party costs through conveyance including legal, appraisal, economic consultant, and other soft costs.

III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USES PERMITTED UNDER THE REDEVELOPMENT PLAN

This section presents an analysis of the fair market value of the Property at its highest and best use. The proposed use of the parcel must be consistent with the Barrio Logan Redevelopment Plan and the Barrio Logan Planned District Ordinance.

In appraisal terminology, the highest and best use can be defined as the legal (i.e., the uses allowed under the redevelopment plan) that will yield to land the highest value. Therefore, the definition of highest and best use is based solely on the value created and not on whether or not it enhances or carries out the redevelopment goals and policies for Barrio Logan.

The current zoning of the Property is Barrio Logan Planned District - Redevelopment Subdistrict, Commercial/Residential Mixed-Use, which provides for a variety of uses including residential, commercial retail, commercial services, commercial professional office, public/quasi public uses, and parking. Determining the fair market value at the highest and best use of the Property must not only take into account the uses permitted under the Redevelopment Plan, but also must take into account the marketability aspect of the permitted uses, i.e., can the permitted uses realistically be expected to be developed on the parcel in a time frame that will result in the highest present value.

The Agency's economic consultant, Keyser Marston Associates, Inc. (KMA), has provided a memorandum dated May 31, 2006, which addresses the fair market value of the Property at highest and best use. The KMA analysis finds that the highest and best use of the Property, as though vacant, is multi-family condominium development, and that the estimated fair market value of the property at its highest and best use is $5,100,000, or $73 per square foot of land.

KMA notes that our estimate of fair market value for the Property is $3,400,000 lower than the estimated acquisition costs. The KMA estimate is reflective of the value of the Property as though vacant, and therefore has not considered any value associated with existing improvements and uses.

IV. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED BY THE SALE

This section explains the principal conditions, covenants, and development costs which the Developer must meet in order to comply with the Barrio Logan Redevelopment Plan, Barrio Logan Planned District Ordinance, and the Agreement which contains the provisions necessary and appropriate to develop the Property and to carry out the Barrio Redevelopment Plan.

The Agreement contains specific covenants and conditions designed to ensure that the development is carried out in a manner to achieve the Agency's objectives, standards, and criteria for such uses under the Barrio Logan Redevelopment Plan. Such covenants and conditions include the following:

1. The Developer shall assign to the Agency any and all purchase contracts it has for the acquisition of the Property.

2. The Agency will acquire the Property and convey fee simple title to the Developer fee for $1.

3. The Agency will contribute a total of $13,167,000, as follows:

Acquisition costs	$8,500,000
Relocation costs	$1,000,000
Financial assistance to Developer	$3,667,000
Total Agency Loan	$13,167,000

4. The disbursement of the Agency loan will be administered by the Agency.

5. The Developer will apply to the State of California Tax Credit Allocation Committee (TCAC) for Low Income Housing Tax Credits. The Developer will have four opportunities to obtain these credits. If the Developer is unable to secure the tax credits after four attempts, the DDA will be terminated.

6. The Developer will construct 85 residential units, including one manager unit, affordable to very low and low income families.

7. The Developer agrees to defer $500,000 of their $1,500,000 developer fee and apply it as a funding source for the Project.

8. It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.

9. The Developer will be responsible for all development costs, including demolition of existing improvements, remediation, construction of the Project, and off-site improvements.

10. The Project will remain affordable for a term of 55 years.

Based on these conditions, covenants, and development costs required by the proposed Agreement, KMA concluded the fair re-use value of the Property to be *negative* $3,667,000.

V. THE COMPENSATION WHICH THE DEVELOPER WILL BE REQUIRED TO PAY

The Developer will pay a purchase price of $1 for the Property.

Upon repayment of the deferred fee, the Developer agrees to pay to the Agency 50% of the residual receipts between Years 1 and 30, and 80% of the residual receipts between Years 31 and 55, from the Project's annual cash flow. Based on a discount rate of 12.0%, KMA estimates this revenue stream to have a net present value of approximately $446,000.

On this bases then, KMA concludes that the effective compensation to the Agency is *negative* $3,221,000, as summarized below:

Agency Financial Assistance	($3,667,000)
Add: Purchase Price	$1
Add: NPV of Residual Receipts to Agency	$446,000
Net Effective Compensation to Agency (rounded)	($3,221,000)

VI. AN EXPLANATION OF THE DIFFERENCE, IF ANY, BETWEEN THE COMPENSATION TO BE PAID TO THE AGENCY BY THE PROPOSED TRANSACTION AND THE FAIR MARKET VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE CONSISTENT WITH THE REDEVELOPMENT PLAN

The fair market value of the interest to be conveyed at the highest and best use consistent with the Barrio Logan Redevelopment Plan is estimated by KMA to be $5,100,000, or $73 per SF.

The compensation to be paid to the Agency by the Agreement is estimated by KMA to be *negative* $3,221,000. Factors affecting the difference in compensation and fair market value of the Property at highest and best use include:

- The Project will feature 85 residential apartments, affordable to very low and low income families.
- The Project will be restricted to very low and low-income households for 55 years.
- The Project will receive Low Income Housing Tax Credits. This source imposes specific covenants and restrictions.

VII. EXPLANATION OF WHY THE SALE OF THE PROPERTY WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Implementation Plan for the Barrio Logan Redevelopment Project, adopted by the Redevelopment Agency on June 15, 2004 in accordance with Section 33490 of the California Community Redevelopment Law, contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Areas. These blighting factors include:

- The age, obsolescence, deterioration, mixed character, or shifting uses of existing buildings;
- The subdividing and sale of lots of irregular form and shape, and inadequate size, for proper usefulness and development;
- A prevalence of depreciated values and impaired investments;
- Property values not keeping pace with other areas of the City due to existing conditions;
- Substantially older structures in deteriorated condition; and
- Development patterns of the area creating significant land use conflicts.

Not all of these conditions are present throughout the Barrio Logan Project Area. The Agency's redevelopment efforts have helped to alleviate many blighting conditions in the Project Area. However, implementation of the Agreement can be expected to assist in the alleviation of blighting conditions through the following:

- Elimination of conditions of economic dislocation such as fragmented ownership patterns;
- Encouragement new and continuing private investment;
- Remediation of contaminated sites; and
- Provision of affordable housing opportunities for Barrio Logan's residents.

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Jim LoBue, Community Development Coordinator
Redevelopment Agency of the City of San Diego

From: KEYSER MARSTON ASSOCIATES, INC.

Date: June 2, 2006

Subject: La Entrada Family Apartments - Estimate of Re-Use Value

A. Introduction

Keyser Marston Associates, Inc. (KMA) has been requested to review the proposed development transaction between the Redevelopment Agency of San Diego (Agency) and La Entrada Housing Investors, L.P. (Developer). The proposed transaction is detailed in the draft Disposition and Development Agreement (DDA) as of June 2, 2006. The Developer intends to build an 85-unit apartment complex affordable to families at very low and low-income levels (Project). The Project will be constructed on an approximate 1.61-acre site (Property) at Logan Avenue between Sigsbee and Beardsley streets in the northern portion of the Barrio Logan Redevelopment Project Area. Under the terms of the DDA, the Agency will acquire all the parcels that comprise the Property and convey it to the Developer.

B. Summary of Findings

KMA's principal conclusions are summarized as follows:

- The estimated re-use value of the interest to be conveyed is *negative* \$3,667,000.
- The estimated value of the compensation to be received by the Agency is *negative* \$3,221,000.
- The estimated fair market value of the Property at its highest and best use is \$5,100,000.

C. Background

<u>*Community Overview*</u>

The Barrio Logan Redevelopment Project (Project Area) was adopted on May 20, 1991 to encourage private investment in the community, while enhancing the community's unique cultural and ethnic qualities. The Project Area includes approximately 133 acres of land located at the foot of the San Diego/Coronado Bay Bridge. The blighting conditions that were identified at the time of plan adoption consisted of the following:

- Subdividing of lots in an inadequate size for proper usefulness and development.
- Inadequate public improvements throughout the area including a lack open space for recreational purposes, an overburdened traffic system, and inadequate public facilities.
- The prevalence of depreciated values, impaired investment, and social and economic maladjustments.
- Substantially older structures in deteriorated condition.
- Significant land use conflicts created by the development pattern of the area.

Over that past several years, the Agency has been actively pursuing and achieving its redevelopment goals. Examples of completed and proposed projects within the Project Area include:

Completed Developments

- *Barrio Haus* – Mixed-use office and commercial development at National Avenue and Sigsbee Street, completed in 2004.
- *Chuey's Restaurant* – Relocation of Chuey's Restaurant into an existing 8,750-square-foot (SF) industrial warehouse, along with on-site parking and landscaping, completed in 2004.
- *Mercado Apartments* –144-unit affordable family housing development located on Cosby Street, completed in 1995.

Proposed Developments

- *Barrio Haus Expansion* – Acquisition and rehabilitation of the site immediately east of the existing Barrio Haus for use as office space and work lofts.
- *Barrio Logan Properties* – Development of 40 affordable housing units at Logan Avenue and Evans Street.
- *Gateway Family Apartments* – 42-unit affordable housing development at Logan Avenue and 16th Street. The development is currently under construction and is expected to be completed in Spring 2007.
- *Sigsbee Row Homes* – One affordable and 13 market-rate residential condominium units at National Avenue and Sigsbee Street.

Proposed Project

The Agency is proposing to partner with the Developer to establish an affordable rental housing development for families. The Property, comprised of 13 parcels, is located on the south side of Logan Avenue between Sigsbee and Beardsley streets in the Barrio Logan Redevelopment Project Area. Existing uses on the Property include a mix of commercial uses and single-family residences. The surrounding area is characterized by a mix of commercial, residential, and industrial land uses.

The Project is located one block east of the 42-unit Gateway Family Apartment development, currently under construction at Logan Avenue and 16th Street.

As described in Table 1, the developer plans to construct 85 affordable family apartments. The proposed Project will be comprised of two, three, and four bedroom units averaging 1,115 square foot (SF). The four-story Project will also include a community room and 165 subterranean parking spaces.

D. Proposed Transaction Terms

This section summarizes the salient aspects of the proposed business terms contained in the draft DDA.

- The Developer shall assign to the Agency any and all purchase contracts it has for the acquisition of the Property.

- The Agency will acquire the Property and convey fee simple title to the Developer for $1.

- The Agency will contribute total financial assistance of $13,167,000, as follows:

Acquisition costs	$8,500,000
Relocation costs	$1,000,000
Financial assistance to Developer	$3,667,000
Total Agency Loan	$13,167,000

- The disbursement of the Agency loan will be administered by the Agency.

- The Developer will apply to the State of California Tax Credit Allocation Committee (TCAC) for Low Income Housing Tax Credits. The Developer will have four opportunities to obtain these credits. If the Developer is unable to secure the tax credits after four attempts, the DDA will be terminated.

- The Developer will construct 85 residential units, affordable to very low and low income families, including one manager unit.

- The Developer agrees to defer $500,000 of their $1,500,000 developer fee and apply it as a funding source for the Project.

- It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.

- The Developer will be responsible for all development costs, including demolition of existing improvements, remediation, construction of the Project, and off-site improvements.

- The Project will remain affordable for a term of 55 years.

- Commencing with Certificate of Occupancy, the Agency loan will bear a simple annual interest rate of 3.0%. Repayment of the Agency loan will be from residual receipts calculated as the Project's annual cash flow after payment of debt service, asset management fees, and repayment of the Deferred Developer Fee.

- Upon repayment of the deferred fee, the Developer agrees to pay to the Agency 50% of the residual receipts (as defined in the Residual Receipts Promissory Note) between Years 1 and 30, and 80% of the residual receipts between Years 31 and 55, toward repayment of Agency loan. Table 2 presents KMA's estimate of Agency compensation from the Project's annual cash flow. As indicated in Table 2, this revenue stream is estimated to have a net present value of approximately $446,000.

Conclusion

Under the terms of the DDA, KMA estimates that the effective compensation to the Agency is *negative* $3,221,000, as follows:

Agency Financial Assistance	($3,667,000)
Add: Purchase Price	$1
Add: NPV of Residual Receipts to Agency	$446,000
Net Effective Compensation to Agency (rounded)	($3,221,000)

E. Estimate of Fair Re-Use Value

Re-use value is defined as the highest price in terms of cash or its equivalent which a property 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 DDA.

There are two fundamental approaches to establish re-use value:

- The first is an analysis based on the sale of comparable properties or development rights. When comparable transactions exist and when relatively few adjustments are required to adjust the comparables to the subject, the approach based on comparable transactions can yield the most reliable indicator of value.

- The second method is an analysis based on the anticipated income characteristics for a specific project. Often the income approach, also termed the residual value approach, proves more useful than the comparable sales approach due to the unique market setting, project characteristics, and specific requirements of the Agency which make the approach based on comparable transactions difficult or unfeasible to implement.

  With this approach, the residual value is established as the amount that a developer can feasibly afford to pay for a property or development right, after taking into account the development costs funded by the developer, the quantity and quality of the income stream from the project, and the market-based return on invested capital.

Comparable Sales Approach

In KMA's view, review of comparable land sale transactions is of minimal relevance in establishing fair re-use value for the Property due to the extensive adjustments of the comparables that would be required. The factors that would require adjustment in establishing comparability include the following:

- The Project will be restricted to very low and low-income households for 55 years.
- The Project will receive Low Income Housing Tax Credits. This source imposes specific covenants and restrictions.
- The Property has extraordinary costs associated with its development, i.e., demolition, relocation, and remediation.
- The proposed Project is dense and will require subterranean parking, which is atypical in Barrio Logan and the surrounding communities on the periphery of Downtown.

Therefore, the comparable sales approach is not deemed relevant to this analysis.

Residual Value Approach

KMA solved for residual value based on the terms of the DDA, absent any contribution of Agency subsidy. Tables 3 to 5 present KMA's residual value analysis for the proposed Project.

Development Costs

Table 3 summarizes development costs for the Project. KMA has reviewed the Developer's cost estimates and evaluated them in comparison to similar residential projects in Southern California with which we are familiar. Based on this review, KMA finds the Developer's cost estimates, as described below, to be reasonable.

Total development costs for the Project are $28,441,000, or $236 per SF of gross building area (GBA), which equates to approximately $335,000 per dwelling unit. Total development costs consist of the following:

- Direct construction costs, such as site work, remediation, demolition, parking, shell construction, FF&E, and contingency. The total direct costs are estimated to be $22,190,000, or $184 per SF GBA.

- Indirect costs, such as architecture, engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing/lease-up, and contingency. These are estimated to be $4,615,000, or 20.8% of direct costs.

- Financing costs, including loan fees, interest during construction, TCAC/syndication costs, and operating/lease-up reserves. These costs are estimated to total $1,636,000, or 7.4% of direct costs.

Net Operating Income

Table 4 presents an estimate of Net Operating Income (NOI) for the Project, as follows:

- Eight (8) units will be restricted to households earning not more than 30% AMI, 8 units restricted to households at 40% AMI, 42 units restricted to households at 50% AMI, and 27 units restricted to households at 60% AMI. Based on these assumptions, total rental income amounts to $810,000 annually.

- Other income, such as laundry and vending, of $10 per unit per month.

- A vacancy factor of 5.0%.

- Total expenses have been estimated at $3,779 per unit per year. These consist of operating expenses, replacement reserves, a San Diego Housing Commission Monitoring Fee, tenant services, and applicable assessments.

Based on these assumptions, NOI for the proposed Project at stabilization is estimated at $458,000.

Residual Land Value

Table 5 presents KMA's estimate of residual land value. The residual land value can be estimated as the difference between total available funding sources and total development costs. KMA estimates total available funding sources of $24,774,000, comprised of the following:

- A conventional loan from a lending institution in the approximate amount of $4,635,000.
- An estimated equity investment from the tax credits of $19,398,000.
- Deferral of a portion of the developer fee, in the amount of $500,000.
- Income during lease-up of $241,000.

The comparison of total funding sources ($24,774,000) and total development costs ($28,441,000) yields a residual land value of *negative* $3,667,000.

Sources of Funds	
First Mortgage	$4,635,000
Tax Credit Equity	$19,398,000
Deferred Developer Fee	$500,000
Income during Lease-Up	$241,000
Total Sources	$24,774,000
(Less) Development Costs	($28,441,000)
Residual Land Value	($3,667,000)

Conclusion

Based on the foregoing analysis, KMA concludes that the fair re-use value of the Property is *negative* $3,667,000.

F. Fair Market Value at Highest and Best Use

Section 33433 of California Redevelopment Law requires that prior to selling or leasing real property, redevelopment agencies estimate the fair market value of the interest to be conveyed at its highest and best (most profitable) use.

Typically, the analysis of the fair market value at highest and best use does not consider the specific Agency/Developer transaction or development concept, but rather the most profitable use that is consistent with the Redevelopment Plan or other governing land use regulations. The purpose of the analysis is to estimate the maximum compensation that the Agency could achieve if it were to offer the subject property or development right on the open market. The highest and best use of the Property is the use that generates the highest property value. By definition, the highest and best use is that use which is physically possible, financially feasible, and legally permitted.

The Barrio Logan Planned District Ordinance - Redevelopment Subdistrict, governs the zoning and land uses for the Property. The Redevelopment Subdistrict was established to implement the goals and objectives of the Barrio Logan Redevelopment Project. As such, land uses and development standards in the Redevelopment Subdistrict are intended to create a compact, small-scale, pedestrian-oriented environment, and encourage compatible mixed-use land patterns. The permitted land use for the subject Property under the Redevelopment Subdistrict is Commercial/Residential Mixed Use with a maximum floor area ratio (FAR) of 1.5 for non-residential development and 43 units per gross acre for residential development. The Commercial/Residential Mixed Use designation allows for the development of single-family residential, multi-family residential, live/work lofts, commercial retail, commercial services, commercial professional office, public/quasi-public uses, and parking.

Based on these considerations, KMA finds that the highest and best use of the Property, as though vacant, is multi-family condominium development. In order to determine the fair market value of the Property, KMA prepared a financial pro forma assuming the development of a hypothetical 86-unit condominium development on the Property. As show in Table 6, KMA concludes that the Property, if offered on the open market, could yield a total land value of approximately $5,100,000, or $73 per SF.

Conclusion

On this basis, then, KMA concludes that the fair market value of the Property at its highest and best use is $5,100,000. KMA notes that our estimate of fair market value for the Property is $3,400,000 lower than the estimated acquisition costs. The KMA estimate is reflective of the value of the Property as though vacant, and therefore has not considered any value associated with existing improvements and uses.

G. Limiting Conditions

The estimates of re-use value and fair market value at the highest and best use contained in this memorandum assume compliance with the following assumptions:

1. There are no soil or subsoil problems, including toxic or hazardous conditions, on the Property that need to be remediated in order to develop the Property.

2. The ultimate development will not vary significantly from that assumed in this Re-Use Analysis.

3. The title of the property is good and marketable; no title search has been made, nor have we attempted to determine the ownership of the property. The value estimates are given without regard to any questions of title, boundaries, encumbrances, liens or encroachments. It is assumed that all assessments, if any, are paid.

4. The Property will be in conformance with the applicable zoning and building ordinances.

5. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means.

6. Neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.

7. The Project will adhere to the schedule of performance described in the DDA.

8. Both parties are well informed and well advised and each is acting prudently in what he/she considers his/her own best interest.

attachments

TABLE 1

PROJECT DESCRIPTION
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

I.	Location	Logan/Sigsbee/Beardsley/National					
II.	**Site Area**						
	Gross Site Area	70,000	SF	1.61	Acres		
	Net Site Area	69,802	SF	1.60	Acres		
III.	**Gross Building Area**						
	Residential Net Building Area	94,800	SF	79%			
	Community Room	2,000	SF	2%			
	Circulation/Lobby	23,700	SF	20%			
	Total Gross Building Area (GBA)	120,500	SF	100%			
	Courtyard	14,650	SF				
	FAR	1.72					
IV.	**Unit Mix**	# of Units				Unit Size	
	Two Bedroom	12	Units	14%		900	SF
	Three Bedroom	60	Units	71%		1,075	SF
	Four Bedroom	12	Units	14%		1,550	SF
	Manager	1	Unit	1%		900	SF
	Total/Average	85	Units	100%		1,115	SF
V.	**Affordability Mix**						
	30% of AMI	8	Units	9%			
	40% of AMI	8	Units	9%			
	50% of AMI	42	Units	49%			
	60% of AMI	27	Units	32%			
	Total Units	85	Units	100%			
	Average Affordability	50%	AMI				
VI.	**Number of Stories**	4	Stories				
VII.	**Density**	53	Units/Net Acre				
VIII.	**Parking**						
	Total Parking SF	60,488	SF				
	Parking Spaces - Surface	0	Spaces				
	Parking Spaces - Subterranean	165	Spaces				
	Total Parking Spaces	165	Spaces				
	Parking Ratio	1.94	Spaces/Unit				
	Total SF/Space	367	SF/Space				

Prepared by: Keyser Marston Associates, Inc.
Filename: I:\sdra\La Entrada Family Apartments II_ 2006_RE-USE;5/31/2006;rks

TABLE 2

ESTIMATE OF COMPENSATION TO AGENCY
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

	Year	1	2	3	4	5	6	7	8	9	10	55
I.	Gross Scheduled Income	$810,234	$830,490	$851,252	$872,533	$894,347	$916,705	$939,623	$963,114	$987,191	$1,011,871	$3,073,967
II.	Add: Other Income	$10,200	$10,455	$10,716	$10,984	$11,259	$11,540	$11,829	$12,125	$12,428	$12,738	$38,698
	(Less) Residential Vacancy @	($40,512)	($41,524)	($42,563)	($43,627)	($44,717)	($45,835)	($46,981)	($48,156)	($49,360)	($50,594)	($153,698)
	(Less) Other Vacancy @	($510)	($523)	($536)	($549)	($563)	($577)	($591)	($606)	($621)	($637)	($1,935)
	(Less) Vacancy	($41,022)	($42,047)	($43,098)	($44,176)	($45,280)	($46,412)	($47,573)	($48,762)	($49,981)	($51,230)	($155,633)
	Effective Gross Income (EGI)	$779,412	$798,898	$818,870	$839,342	$860,325	$881,833	$903,879	$926,476	$949,638	$973,379	$2,957,032
III.	Total Expenses	($321,198)	($332,402)	($343,998)	($355,999)	($368,419)	($381,273)	($394,577)	($408,345)	($422,594)	($437,340)	($2,049,766)
IV.	Net Operating Income	$458,214	$466,495	$474,872	$483,343	$491,906	$500,560	$509,303	$518,132	$527,045	$536,039	$907,266
	(Less) Debt Service	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	($398,447)	$0
V.	Project Cash Flow	$59,767	$68,048	$76,425	$84,895	$93,459	$102,113	$110,855	$119,685	$128,597	$137,592	$907,266
VI.	(Less) Limited Partner Asset Management Fee	($2,500)	($2,588)	($2,678)	($2,772)	($2,869)	($2,969)	($3,073)	($3,181)	($3,292)	($3,407)	$0
	(Less) General Partner Asset Management Fee	($10,000)	($10,350)	($10,712)	($11,087)	($11,475)	($11,877)	($12,293)	($12,723)	($13,168)	($13,629)	($64,088)
	Total Asset Management Fees	($12,500)	($12,938)	($13,390)	($13,859)	($14,344)	($14,846)	($15,366)	($15,903)	($16,460)	($17,036)	($64,088)
VII.	Cash Flow Available for Distribution	$47,267	$55,110	$63,034	$71,036	$79,115	$87,267	$95,490	$103,781	$112,137	$120,555	$843,178
VIII.	Cash Flow Available for Distribution	$47,267	$55,110	$63,034	$71,036	$79,115	$87,267	$95,490	$103,781	$112,137	$120,555	$843,178
	(Less) Repayment of Deferred Developer Fee	($47,267)	($55,110)	($63,034)	($71,036)	($79,115)	($87,267)	($95,490)	($103,781)	($33,975)	$0	$0
IX.	Net Cash Flow Available for Distribution	$0	$0	$0	$0	$0	$0	$0	$0	$78,163	$120,555	$843,178
	Cash Flow to Developer	$0	$0	$0	$0	$0	$0	$0	$0	$39,081	$60,278	$168,636
X.	Cash Flow to Agency for Loan Repayment	$0	$0	$0	$0	$0	$0	$0	$0	$39,081	$60,278	$674,542
	Repayment of Outstanding Agency Loan											$16,826,062
	Total Cash Flow to Agency	$0	$0	$0	$0	$0	$0	$0	$0	$39,081	$60,278	$17,500,605
	NPV of Cash Flow to Agency @ 12%	$446,000										

Assumptions:	
Income Escalation	2.5%
Vacancy	5.0%
Operating Expense Escalation	3.5%
Replacement Reserves Escalation	3.5%
Property Tax Escalation	2.0%
Asset Management Fee Escalation	3.5%

Debt Service:	
NOI	$458,214
Interest Rate	7.75%
Term	30
Debt Coverage	1.15
Annual Debt Service	$398,447

Cash Flow Distribution:	Agency	Developer
Years 1-30 *	50.0%	50%
Years 31-55	80.0%	20%

* After repayment of deferred developer fee.

(1) Reflects long-term Applicable Federal Rate (April 2006).

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TABLE 3

DEVELOPMENT COSTS
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

	Totals	Per Unit	Comments	
I. Direct Costs (1)				
Off-Site Improvements (2)	$160,000	$1,882	$2	Per SF Site Area
On-Sites/Landscaping	$700,000	$8,235	$10	Per SF Site Area
Remediation	$1,000,000	$11,765	$14	Per SF Site Area
Demolition (2)	$530,000	$6,235	$8	Per SF Site Area
Parking - Subterranean	$3,680,000	$43,294	$22,300	Per Space
Shell Construction	$15,063,000	$177,212	$125	Per SF GBA
Shell Construction-Courtyard	$0	$0		Included above
Community Room	$0	$0		Included above
FF&E	$0	$0		Included above
Contingency	$1,057,000	$12,435	5.0%	of Directs-excl. FF&E
Total Direct Costs	$22,190,000	$261,059	$184	Per SF GBA
II. Indirect Costs				
Architecture & Engineering	$1,110,000	$13,059	5.0%	of Directs
Permits & Fees (2)	$1,020,000	$12,000	$8	Per SF GBA
Legal & Accounting	$225,000	$2,647	1.0%	of Directs
Taxes & Insurance	$445,000	$5,235	2.0%	of Directs
Developer Fee	$1,500,000	$17,647	6.8%	of Directs
Marketing/Lease-Up	$95,000	$1,118		Allowance
Contingency	$220,000	$2,588	5.0%	of Indirects
Total Indirect Costs	$4,615,000	$54,294	20.8%	of Directs
III. Financing Costs				
Loan Fees	$357,000	$4,200	1.6%	of Directs
Interest During Construction	$903,000	$10,624	4.1%	of Directs
TCAC Fees	$197,000	$2,318	0.9%	of Directs
Operating Lease-Up/Reserves	$179,000	$2,106		Allowance
Total Financing Costs	$1,636,000	$19,247	7.4%	of Directs
IV. Total Development Costs	$28,441,000	$334,600	$236	Per SF GBA

(1) Excludes payment of prevailing wages.
(2) Developer estimate. Not verified by KMA or City.

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TABLE 4

NET OPERATING INCOME
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

			Average Unit Size (SF)	# of Units	$/Month (1)	$/SF	Total Annual
I.	**Gross Scheduled Income**						
	Two Bedroom @	30% of AMI	900 SF	1	$396	$0.44	$4,752
	Two Bedroom @	40% of AMI	900 SF	1	$542	$0.60	$6,504
	Two Bedroom @	50% of AMI	900 SF	6	$688	$0.76	$49,536
	Two Bedroom @	60% of AMI	900 SF	4	$834	$0.93	$40,032
	Three Bedroom @	30% of AMI	1,075 SF	6	$455	$0.42	$32,760
	Three Bedroom @	40% of AMI	1,075 SF	6	$624	$0.58	$44,928
	Three Bedroom @	50% of AMI	1,075 SF	30	$793	$0.74	$285,480
	Three Bedroom @	60% of AMI	1,075 SF	18	$962	$0.89	$207,792
	Four Bedroom @	30% of AMI	1,550 SF	1	$500	$0.32	$6,000
	Four Bedroom @	40% of AMI	1,550 SF	1	$688	$0.44	$8,256
	Four Bedroom @	50% of AMI	1,550 SF	6	$876	$0.57	$63,090
	Four Bedroom @	60% of AMI	1,550 SF	4	$1,065	$0.69	$51,096
	Manager @	60% of AMI	900 SF	1	$834	$0.93	$10,008
	Total/Average		1,115 SF	85	$794	$0.90	$810,234
	Add: Other Income			$10	/Unit/Month		$10,200
	(Less) Vacancy @			5.0%	Residential Income		($40,512)
	(Less) Other Vacancy @			5.0%	of Other Income		($510)
	Effective Gross Income (EGI)						$779,412
II.	**Operating Expenses**						
	(Less) Operating Expenses			$3,200	/Unit/Year		($272,000)
	(Less) Service Amenities			$240	/Unit/Year		($20,423)
	(Less) Property Taxes			$29	/Unit/Year		($2,500)
	(Less) Replacement Reserves			$250	/Unit/Year		($21,250)
	(Less) SDHC Monitoring Fee			$59	/Unit/Year		($5,025)
	Total Expenses			$3,779	/Unit/Year		($321,198)
				41.2%	of EGI		
III.	**Net Operating Income**						**$458,214**
	Or Say (Rounded)						**$458,000**

(1) Rents for affordable units calculated using more restrictive rents as assigned by TCAC and California Redevelopment Law. Assumes San Diego Housing Commission (SDHC) 2006 monthly utility allowances of $42 for 2 bedroom units; $51 for 3 bedroom units; and $65 for 4 bedroom units.

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TABLE 5

RESIDUAL LAND VALUE AND FINANCING DEFICIT
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

I. Sources of Funds	
Supportable Debt (1)	$4,635,000
Market Value of Tax Credits (2)	$19,398,000
Deferred Developer Overhead Fee (3)	$500,000
Income During Lease-Up	$241,000
II. Total Warranted Investment	$24,774,000
(Less) Development Costs	($28,441,000)
III. Residual Land Value	**($3,667,000)**
Per SF Site Area	**($52)**
Per Unit	**($43,100)**
Per Bedroom	**($14,600)**
IV. Financing Deficit	
Residual Land Value	($3,667,000)
(Less) Acquisition Costs	($8,500,000)
(Less) Relocation Costs	($1,000,000)
Financing Deficit	**($13,167,000)**
Per Unit	**($154,900)**
Per Bedroom	**($52,300)**

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TABLE 5 (CONT'D.)

FINANCING SURPLUS/(DEFICIT)
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

(1) Supportable Debt				
NOI				$458,214
Interest Rate				7.75%
Term (in years)				30
Debt Coverage Ratio				1.15
Annual Debt Service				$398,447
Supportable Debt				$4,635,000

(2) Low Income Housing Tax Credits (Federal)				
Threshold Basis Limits	Units	2006		
Two Bedroom - Elevator	12	$154,781 /Unit		$1,857,372
Three Bedroom - Elevator	60	$200,232 /Unit		$12,013,920
Four Bedroom - Elevator	13	$219,794 /Unit		$2,857,322
Subtotal Threshold Basis Limit	85	$196,807 /Unit		$16,728,614
Add: Basis Adjustment for Prevailing Wages			0%	$0
Add: Basis Adjustment			11.0%	$1,840,148
Add: Local Development Impact Fees	80% of Permits/Fees			$816,000 *
Total Threshold Basis Limit				$19,384,762
Estimate of Eligible Basis:				
Total Development Costs				$28,441,000
(Less) Ineligible Costs				($1,088,000)
Eligible Basis				$27,353,000
Maximum Eligible Basis				$19,384,762
Tax Credit Qualified Units/Applicable Factor			100.0%	$19,384,762
Impacted Bonus Factor			130.0%	$25,200,190
(Less) Voluntary Credit Reduction			2.0%	$24,696,186
Tax Credit Rate @			8.11%	$2,002,861
Maximum Annual Credit				$2,000,000 **
Total Tax Credits @			10	$20,000,000
Limited Partner Share			99.99%	$19,998,000
Present Market Value @			97.0%	$19,398,000

* KMA assumption. Not verified by City.

** Reflects maximum tax credit award available to one project.

(3) Estimate of Deferred Developer Overhead Fee		
Eligible Basis		$19,384,762
(Less) Developer Fee		($1,500,000)
Unadjusted Eligible Basis		$17,884,762
Total Developer Overhead Fee	8%	$1,500,000
Developer Overhead Fee		$1,500,000
Total Deferred Developer Overhead Fee	33%	$500,000

TABLE 6

ESTIMATE OF RESIDUAL LAND VALUE AT HIGHEST AND BEST USE (FOR-SALE CONDOMINIUMS)
LA ENTRADA FAMILY APARTMENTS
CITY OF SAN DIEGO REDEVELOPMENT AGENCY

I. Project Description					
A. Site Area		1.61 Acres			
		70,000 SF			
B. Gross Building Area					
Net Residential		84,900 SF	85%		
Common Area/Circulation		15,000 SF	15%		
Total Gross Building Area		99,900 SF	100%		
C. Floor Area Ratio (FAR)		1.4			
					Average
D. Unit Mix					Unit Size
Two Bedroom		61 Units	71%		900 SF
Three Bedroom		25 Units	29%		1,200 SF
Total Number of Units		86 Units	100%		987 SF
E. Average Unit Size (SF)		987 SF			
F. Density (Units/Acre) (1)		53.75 Units/Acre			
G. Parking		129 Spaces			
		1.5 Space/Unit			
II. Development Costs					
A. Direct Costs		$17,848,000	$179 Per SF GBA		
B. Indirect Costs		$4,947,000	28% of Directs		
C. Financing Costs		$1,808,000	10% of Directs		
D. Total Development Costs		$24,603,000	$246 Per SF GBA		
Per Unit		$286,000			
III. Gross Sales Proceeds					
A. Number of Units		86 Units			
B. Average Unit Size		987 SF			
C. Market Rate Sales Price per Unit @	$425 /SF	$420,000			
D. Total Gross Sales Proceeds		$36,120,000			
IV. Residual Land Value					
A. Gross Sales Proceeds		$36,120,000			
(Less) Cost of Sale	3.0% of Value	($1,084,000)			
(Less) Target Developer Profit	12.0% of Value	($4,334,000)			
B. Supportable Investment		$30,702,000			
(Less) Total Development Costs		($24,603,000)			
C. Residual Land Value		**$6,099,000**			
Or Say (Rounded)		**$6,100,000**			
Per Unit		**$70,900**			
Per SF Site Area		**$87**			
(Less) Remediation Costs		($1,000,000)			
D. Adjusted Residual Land Value		**$5,100,000**			
Per Unit		**$59,300**			
Per SF Site Area		**$73**			

(1) Proposed project maximizes allowable density on the Site, subject to Redevelopment Subdistrict for Barrio Logan.

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