THE LONDON GROUP
Realty Advisors

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Mr. Jonathan Segal
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RE: Economic Alternative Analysis for 1610 Union Street

Jonathan Segal FAIA & Development Company currently owns an approximately 5,000 square foot lot at 1610 Union Street in the Little Italy neighborhood of Downtown San Diego. The property is located on the northwest corner of Union Street and West Cedar Street. The site currently contains a 2,013 square foot single-family home, 816 square feet of commercial space and an 816 square foot garage.

The London Group Realty Advisors has completed an economic analysis of various development options for the property. The purpose of this analysis is to analyze the proposed Base Project and the financial impacts and economic feasibility of the development alternatives.

We have analyzed three development options for the property, which include:

- Base Project: demolish existing structures and construct a 4,350 square foot home, 1,400 square feet of retail and 35 efficiency units with an average unit size of 375 square feet.

- Alternative 1: rehabilitate the existing 2,013 square foot home, 816 square feet of commercial and an 816 square foot garage.

- Alternative 2: rehabilitate the existing 2,013 square-foot home and demolish commercial space to construct two additional residential units at 600 square feet each.

- Alternative 3: relocate and rehabilitate the existing structures to construct a 4,350 square foot home, 1,400 square feet of retail and 35 efficiency units with an average unit size of 375 square feet.

Conclusions of Economic Alternatives

We analyzed the project performance of the Base Project that is proposed for the property. The Base Project includes construction of a new 4,350 square foot single-family home, 1,400 square feet of retail and 35 efficiency rental units.

We have assumed a 12-month construction period with the single family home being sold when construction is completed. The rental units and commercial space is assumed to sold at the end of the five-year investment period. The following table summarizes the impacts to the Base Project under each of the two alternatives:

1610 Union Street - Little Italy, CA
Summary of Scenarios

Base Project
35 Efficiency Units + 1 SFR

# of Units	36
For Sale Residential	4,350
Rental Residential	13,125
Rental Retail	1,400
Total Net Useable	18,875

Profit	**$1,623,097**

Performance

Total Gross Sales Revenue	**$13,207,751**
Margin On Revenue	**12.3%**
Total Project Costs	**$12,340,012**
Margin On Cost	**13.2%**

Alternative 1
Rehab Existing House & Commercial

# of Units	2
For Sale Residential	2,013
For Sale Commercial	816
Total Net Useable	2,829
Garage S.F.	816
Total S.F.	3,645
Difference (Net S.F.)	(16,046)
Difference (%)	85%

Profit	($1,667,772)
Difference ($)	(3,290,869)
Difference (%)	-203%

Total Gross Sales Revenue	**$1,525,347**
Margin On Revenue	**-109.3%**
Total Project Costs	**$3,116,852**
Margin On Cost	**-53.5%**

Alternative 2
Rehab Existing House & Construct 2 Units

# of Units	3
For Sale Residential	2,013
For Sale Commercial	1,200
Total Net Useable	3,213
Difference (S.F.)	(15,662)
Difference (%)	83%

Profit	($1,417,825)
Difference ($)	(3,040,922)
Difference (%)	-187%

Total Gross Sales Revenue	**$1,951,657**
Margin On Revenue	**-72.6%**
Total Project Costs	**$3,207,108**
Margin On Cost	**-44.2%**

Alternative 3
Relocate & Rehab 2,013 SF Home

# of Units	36
For Sale Residential	4,350
Rental Residential	13,125
Rental Retail	1,400
Relocated Home	2,013
Total Net Useable	20,888
Difference (S.F.)	2,013
Difference (%)	11%

Profit	$216,905
Difference ($)	(1,406,192)
Difference (%)	-87%

Total Gross Sales Revenue	**$13,780,915**
Margin On Revenue	**1.6%**
Total Project Costs	**$14,216,859**
Margin On Cost	**1.5%**

Source: The London Group Realty Advisors

We have determined that only the Base Project is economically feasible. This project is forecasted to generate a total profit of $1.6 million, which when compared to the total revenue of the project represents a Margin on Revenue of 12.3%. This is on the lower end of the spectrum for investor returns, however, it is still financially feasible.

Based on performing feasibility analyses and consulting services on hundreds of real estate projects, it is our experience that a redevelopment project requires the Margin on Revenue to exceed 10% for a project to be economically feasible and to qualify for project financing. In fact, even a low Margin on Revenue of 10% to 15% is still a challenge to achieve financing.

The internal rate of return (IRR) of the Base Project is forecasted to be 18%. This also demonstrates that the project is economically feasible. The typical minimum IRR for rental housing projects range from 13% to 15%. Any IRR below this range would struggle to attract investors and achieve project financing.

Both Alternative 1 and Alternative 2 are not economically feasible. Due to the high rehabilitation costs, as well as compact size of the site, more expensive construction methods and materials are required. This results in the project costs exceeding the revenues. Both alternatives result in a financial loss for the developer ranging from $1.4 million to $1.7 million. The resulting profit margins and IRR are also negative for the alternatives, which demonstrates infeasibility because positive returns cannot be generated.

To further illustrate the infeasibility of the two alternatives, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot (compared to current value of $382 per square foot), both alternatives still result in a financial loss for the developer. This suggests that the challenge to developing this property is not the acquisition price, but the high costs of construction due to the small-scale site that requires more expensive construction methods.

Alternative 3, which relocates the structure to another neighborhood (e.g. Logan Heights area) is not economically feasible. Due to the moving costs, high rehabilitation costs and lower achievable sale price, this alternative results in significant revenue loss for the project. Alternative 3 results in an IRR of only 2.5%, which is much lower than the minimum 13% to 15% required for a project to be financeable and economically feasible. The Margin On Revenue of only 1.6% also falls well short of economic feasibility. Overall, Alternative 3 results in an 87% reduction (or $1,406,192) in total profit for the project.

Approach to Analysis

To determine the impact to the project, we prepared financial proformas for the two alternatives and compared the performances to the Base Project proforma. In each proforma, we assumed the following:

- Construction period of 12 months
- Single family home is sold immediately after construction is completed
- The project is stabilized and sold at the end of a five-year investment period.
- Construction costs are provided by the developer and The London Group based on similar projects and construction types.
- Rental rates, sales prices and revenue were established by our survey of market rents for competitive projects in the area.

The following summarizes the financial proformas we have prepared for analyzing the project, which are included in the Appendix.

Base Project

The Base Project includes demolition of the existing structures and construction of a single-family home and 35 efficiency units. The single-family home is assumed to be sold after construction is completed, while the 35 efficiency units (4 units affordable) will be rentals with a total of 13,125 square feet of net rentable area. The project also includes construction of 1,400 square feet of retail space.

The 33 market rate rental units will average 375 square feet in size with an average initial monthly rental rate of $1,500 (in current dollars). The two affordable units will also average 375 square feet but will rent for $709 per month (Very Low Income level).

When the single-family home is sold after construction is completed, the forecasted sale price is estimated to be $2,600,000. The 35-unit rental project and 1,400 square feet of commercial is assumed to be sold in Year 5 at an estimated value of $11,449,537. The total profit generated from this investment, including the sales revenue and annual cash flows, is forecasted to be $1,623,097.

This net profit of $1.62 million represents a Margin on Revenue of 12.3% when divided by the Gross Sales Revenue of the project ($13.2 million). This suggests that the Base Project is economically feasible. It is our experience that a redevelopment project requires the Margin on Revenue to exceed 10% for a project to be economically feasible and to qualify for project financing.

The internal rate of return (IRR) of the investment is forecasted to be 18%. This also demonstrates that the project is economically feasible. The typical minimum IRR for rental housing projects range from 13% to 15%. Any IRR below this range would struggle to attract investors and achieve project financing.

Alternative 1

Alternative 1 assumes rehabilitation of the existing single-family home (2,013 square feet), the existing commercial space (816 square feet) and existing garage (816 square feet). Both the single family home and the commercial space are assumed to be sold immediately after construction is completed.

The forecasted sale price for the single-family home is estimated to be $1,225,000 ($609 per square foot). The sale price of the commercial space is forecasted to be $300,347 ($368 per square foot). Total project costs are forecasted at $3,116,852 while total gross sales revenue is forecasted at only $1,525,347. This results in a financial loss for the project, which is forecasted to be negative $1,667,772.

Compared to the Base Project, Alternative 1 represents a reduction of 16,046 net useable square feet, or 85% less space. This has a direct impact to the overall achievable value of the project.

With a total forecasted value at disposition of $1,525,347, Alternative 1 would generate approximately $11,682,403 less revenue than the Base Project (88% reduction). But more importantly the project is not economically feasible because it results in a financial loss of $1,525,347.

To further illustrate the infeasibility of this alternative, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot, the project would still result in a financial loss of $723,859.

Alternative 2

Alternative 2 assumes rehabilitation of the existing single-family home, the demolition of the existing commercial space and construction of two new residential rental units. The existing single-family home is 2,013 square feet and the newly constructed rental units would total 1,200 square feet (600 square feet each).

When the single-family home is sold after construction is completed, the forecasted sale price is estimated to be $1,225,000 ($609 per square foot). The sale price of the two rental units that are sold in Year 5 is forecasted to be $726,657 ($606 per square foot). Total project costs are forecasted at $3,207,108 but the total sales value of the project is only $1,951,657, which represents a loss in value of $1,255,451.

Including the annual cash flow from operations and accounting for sale commissions, Alternative 2 results in a financial loss of $1,417,825, which demonstrates that the project is not economically feasible.

Compared to the Base Project, Alternative 2 represents a reduction of 15,662 net useable square feet, or 83% less space. This has a direct impact to the overall achievable value of the project.

With a total forecasted value at disposition of $1,951,657, Alternative 2 would generate approximately $11,256,093 less revenue than the Base Project (85% reduction). But more importantly the project is not economically feasible because it results in a financial loss of $1,417,825.

To further illustrate the infeasibility of this alternative, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot, the project would still result in a loss of $172,004.

Alternative 3

Alternative 3 assumes relocation and rehabilitation of the existing single-family home to construct a 4,350 square foot home, 1,400 square feet of retail and 35 efficiency units (4 units affordable) with an average unit size of 375 square feet.

When the relocated and rehabilitated home is sold, the forecasted sale price is estimated to be $600,000 ($298 per square foot). The newly constructed single-family home at the new project is assumed to be sold after construction is completed, the forecasted sale price is estimated to be $2,600,000 ($598 per square foot). Total project costs are forecasted at $14,392,748.

Including the annual cash flow from operations and accounting for sale commissions, Alternative 3 generates a profit of $216,905, which represents an IRR of 2.5% and a Margin On Revenue of 1.6%.

For a project to be financeable and economically feasible, the IRR needs to achieve a minimum of 13% to 15%. Similarly, the Margin on Revenue needs to be in the range of 10% to 15%, but even at this range projects have difficulty getting financed. Therefore, Alternative 3 is not an economically feasible alternative.

In addition, compared to the Base Project, Alternative 3 represents an 87% reduction in total profit generated by the development.

Should you have any questions regarding this analysis, please contact us.

Sincerely,

Gary H. London   Nathan Moeder

APPENDIX

1610 Union Street
Base Project
35 Efficiency Units + 1 SFR
Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential).	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$10,607,751
Asset Value PSF	$814

BUILDING ASSUMPTIONS

Project FAR	6.3
Units Per Acre	305
# Units	36
Land S.F.	5,000
Gross Building Area (60% Efficiency)	31,722
Efficiency	60%
Net Rentable Area	18,875

FINANCING

Construction Financing:		
Loan Amount		$9,255,009
Loan to Cost		75%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Base Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
Efficiency Units	31	89%	375	11,625	$1,500	$4.00
Total Market Rate	**31**	**89%**	**375**	**11,625**	**$1,500**	**$4.00**
Affordable Units (Very Low)						
Efficiency Units	4	11%	375	1,500	$709	$1.89
Subtotal	*4*	*11%*	*375*	*1,500*	*$709*	*$1.89*
Retail S.F.		**1,400**				
Retail NNN Rent/Mo.		**$4.00**				
Single Family Home	4,350	square feet				
Sale Period	2					
Sale Price	$2,600,000					
Less: Commission (5.0%)	($130,000)					
Net Sales Revenue	$2,470,000					

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$53,056	$60.21
Hard Costs	$8,437,338	$234,371	$265.98
Soft Costs	$1,518,721	$42,187	$47.88
Financing	$473,954	$13,165	$14.94
Total Project Costs	**$12,340,012**	**$342,778**	**$389.00**
Less: Loan Amount	$9,255,009	$257,084	$291.75
Initial Investment:	$3,085,003	$85,695	$97.25

INVESTMENT PERFORMANCE

Stabilized NOI	Year 3		$484,264
Total Project Costs			$12,340,012
Stabilized Yield On Cost			**3.9%**
		Cash On Cash	Cash Flow
Initial			($1,910,000)
Year 1		-38.1%	($1,175,003)
Year 2		95.3%	$2,939,829
Year 3		5.9%	$183,476
Year 4		6.4%	$198,371
Year 5		44.9%	$1,386,423
Total Profit			**$1,623,097**
Before Tax IRR			**18%**
Total Gross Sales Revenue			$13,207,751
Total Profit			$1,623,097
Margin On Revenue			**12.3%**
Total Project Costs			$12,340,012
Total Profit			$1,623,097
Margin On Cost			**13.2%**

Source: The London Group Realty Advisors

1610 Union Street

Base Project

Construction Costs

Units	36
Gross S.F.	31,722

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$53,056	$60.21
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$53,056	$60.21
Hard Costs				
Residential Construction (Single-Family Home)	$400 psf	$1,740,000	$48,333.33	$54.85
Residential Construction (Efficiency Units)	$230 psf	$5,973,560	$165,932	$188.31
Retail Construction	$230 psf	$322,000	$8,944	$10.15
Contingency	5.0%	$401,778	$11,161	$12.67
Subtotal Hard Costs		$8,437,338	$234,371	$265.98
Soft Costs				
Indirects	18.0%	$1,518,721	$42,187	$47.88
Subtotal Soft Costs		$1,518,721	$42,187	$47.88
Financing Costs				
Construction Loan Interest		$404,929	$11,248	$12.76
Loan Fee	0.75%	$69,024	$1,917	$2.18
Subtotal Financing Costs		$473,954	$13,165	$14.94
Total Construction Costs		**$12,340,012**	**$342,778**	**$389**

Source: The London Group Realty Advisors

1610 Union Street
Base Project
Cash Flow Forecast

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					31	31	31	31
Units Leased (Market Rate)					31	31	31	31
Units Leased (Affordable)					4	4	4	4
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$1,500	$1,545	$1,591	$1,639	$1,688
Monthly Rent Per S.F. (Market Rate)				$4.00	$4.12	$4.24	$4.37	$4.50
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$500,580	$515,597	$531,065	$546,997
Gross Rental Income (Affordable Units)				0	$34,032	$34,032	$34,032	$34,032
Retail Income (NNN)				$0	$71,292	$73,431	$75,634	$77,903
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$605,904**	**$623,061**	**$640,732**	**$658,932**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($43,697)	($44,571)	($45,462)	($46,371)
Less: Property Taxes[2]	($2,864)	2.0%		$0	($92,378)	($94,226)	($96,110)	($98,033)
Operating Expenses Per Unit	**($4,064)**			**$0**	**($136,075)**	**($138,797)**	**($141,572)**	**($144,404)**
Operating Expense Ratio						**27%**	**27%**	**26%**
Net Operating Income				**$0**	**$469,829**	**$484,264**	**$499,159**	**$514,529**
Less: I/O (interim) financing				$0	$0	($300,788)	($300,788)	($300,788)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($300,788)**	**($300,788)**	**($300,788)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$469,829**	**$183,476**	**$198,371**	**$213,741**
Cash On Cash						5.9%	6.4%	6.9%

Disposition

	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Residential Home						
Sale Price			$2,600,000			
Less Commissions			($130,000)			
Net Proceeds			$2,470,000			
Efficiency Units (35 Units)						
Cap Rate						5.00%
Next Year NOI						$450,147
Asset Value						$9,002,944
Asset Value Per Net SF						$774
Asset Value Per Unit						$257,227
Retail (1,400 SF)						
Cap Rate						5.00%
Next Year NOI						$80,240
Asset Value						$1,604,806
Asset Value Per Net SF						$1,146
Sale Price						$10,607,751
Less: Commissions & Closing Costs						($180,059)
Less: Principal Balance of Loan O/S						($9,255,009)
Net Proceeds from Disposition						**$1,172,682**
Total Cash Flow Before Taxes	**($1,910,000)**	**($1,175,003)**	**$2,939,829**	**$183,476**	**$198,371**	**$1,386,423**
IRR 18%						

Notes:
[1] $100 per unit per month
[2] 1.1% of 90% of construction costs

1610 Union Street

Alternative 1

Rehab Existing House & Commercial Space

Assumptions			
Land (S.F.)	5,000		
Existing House (S.F.)	2,013		
Existing Commercial (S.F.)	816		
Existing Garage (S.F.)	816		
Construction Financing:			
Loan Amount	$2,181,796		
Loan to Cost	70%		
Interest Rate	3.25%		
Term (Months)	24		
Costs		**Costs**	**$/SF of Bldg**
Land Costs			
Land Acquisition		$1,910,000	$524.01
Site Costs		$0	$0.00
Subtotal Land Costs		$1,910,000	$524.01
Hard Costs			
Residential Rehabilitation	$300 psf	$603,900	$165.68
Commercial Rehabilitation	$200 psf	$163,200	$44.77
Garage Rehabilitation	$150 psf	$122,400	$33.58
Contingency	5.0%	$38,355	$10.52
Subtotal Hard Costs		$927,855	$254.56
Soft Costs			
Indirects	18.0%	$167,014	$45.82
Subtotal Soft Costs		$167,014	$45.82
Financing Costs			
Construction Loan Interest		$95,705	$26.26
Loan Fee	0.75%	$16,278	$4.47
Subtotal Financing Costs		$111,983	$30.72
Total Construction Costs		**$3,116,852**	**$855.10**
Revenue			
Sale Price Residential	$609 psf	$1,225,000	$336.08
Less: Commission	5.0%	($61,250)	($16.80)
Net Sales Revenue Residential		$1,163,750	$319.27
Sale Price Commercial	$368 psf	$300,347	$82.40
Less: Commission	5.0%	($15,017)	($4.12)
Net Sales Revenue Commercial		$285,330	$78.28
Total Net Revenue		**$1,449,080**	**$397.55**
Net Profit		**($1,667,772)**	**($457.55)**
Profit Percent of Sales		**-136.1%**	
Performance			
Total Gross Sales Revenue		$1,525,347	$418.48
Total Profit		($1,667,772)	($457.55)
Margin On Revenue		**-109.3%**	
Total Project Costs		$3,116,852	$855.10
Total Profit		($1,667,772)	($457.55)
Margin On Cost		**-53.5%**	

1610 Union Street

Alternative 2

2 Rental Units + Rehabilitate House

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential).	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$726,657
Asset Value PSF	$606

BUILDING ASSUMPTIONS

Project FAR	0.8
Units Per Acre	17
# Units	3
Land S.F.	5,000
Gross Building Area (60% Efficiency)	4,013
Efficiency	80%
Net Rentable Area	3,213

FINANCING

Construction Financing:		
Loan Amount		$2,244,976
Loan to Cost		70%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Alt 1 Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
1 BD	2	100%	600	1,200	$2,400	$4.00
Total Market Rate	**2**	**100%**	**600**	**1,200**	**$2,400**	**$4.00**
Affordable Units (Very Low)						
Subtotal						
Retail S.F.		**0**				
Retail NNN Rent/Mo.		**$0.00**				

Single Family Home	2,013	square feet
Sale Period	2	
Sale Price	$1,225,000	
Less: Commission (5.0%)	($61,250)	
Net Sales Revenue	$1,163,750	

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$636,667	$475.95
Hard Costs	$1,001,595	$333,865	$249.59
Soft Costs	$180,287	$60,096	$44.93
Financing	$115,226	$38,409	$28.71
Total Project Costs	**$3,207,108**	**$1,069,036**	**$799.18**
Less: Loan Amount	$2,244,976	$748,325	$559.43
Initial Investment:	$962,132	$320,711	$239.75

INVESTMENT PERFORMANCE

Stabilized NOI	Year 2		$31,205
Total Project Costs			$3,207,108
Stabilized Yield On Cost			**1.0%**
		Cash On Cash	Cash Flow
Initial			($1,910,000)
Year 1		98.5%	$947,868
Year 2		124.2%	$1,194,955
Year 3		-4.2%	($40,539)
Year 4		-4.1%	($39,280)
Year 5		-163.3%	($1,570,828)
Total Profit			**($1,417,825)**
Before Tax IRR			**#NUM!**
Total Gross Sales Revenue			$1,951,657
Total Profit			($1,417,825)
Margin On Revenue			**-72.6%**
Total Project Costs			$3,207,108
Total Profit			($1,417,825)
Margin On Cost			**-44.2%**

Source: The London Group Realty Advisors

1610 Union Street

Alternative 2

Construction Costs

Units	3
Gross S.F.	4,013

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$636,667	$475.95
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$636,667	$475.95
Hard Costs				
Residential Construction (Single-Family Home)	$300 psf	$603,900	$201,300.00	$150.49
Residential Construction (2 Units)	$175 psf	$350,000	$116,667	$87.22
Retail Construction	$0 psf	$0	$0	$0.00
Contingency	5.0%	$47,695	$15,898	$11.89
Subtotal Hard Costs		$1,001,595	$333,865	$249.59
Soft Costs				
Indirects	18.0%	$180,287	$60,096	$44.93
Subtotal Soft Costs		$180,287	$60,096	$44.93
Financing Costs				
Construction Loan Interest		$98,476	$32,825	$24.54
Loan Fee	0.75%	$16,749	$5,583	$4.17
Subtotal Financing Costs		$115,226	$38,409	$28.71
Total Construction Costs		**$3,207,108**	**$1,069,036**	**$799**

Source: The London Group Realty Advisors

1610 Union Street
Alternative 2
Cash Flow Forecast

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					2	2	2	2
Units Leased (Market Rate)					2	2	2	2
Units Leased (Affordable)					0	0	0	0
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$2,400	$2,472	$2,546	$2,623	$2,701
Monthly Rent Per S.F. (Market Rate)				$4.00	$4.12	$4.24	$4.37	$4.50
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$59,328	$61,108	$62,941	$64,829
Gross Rental Income (Affordable Units)				0	$0	$0	$0	$0
Retail Income (NNN)				$0	$0	$0	$0	$0
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$59,328**	**$61,108**	**$62,941**	**$64,829**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($2,497)	($2,547)	($2,598)	($2,650)
Less: Property Taxes[2]	($12,316)	2.0%		$0	($25,626)	($26,139)	($26,661)	($27,195)
Operating Expenses Per Unit	**($13,516)**			**$0**	**($28,123)**	**($28,686)**	**($29,259)**	**($29,844)**
Operating Expense Ratio						**47%**	**46%**	**46%**
Net Operating Income				**$0**	**$31,205**	**$32,422**	**$33,682**	**$34,985**
Less: I/O (interim) financing				$0	$0	($72,962)	($72,962)	($72,962)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($72,962)**	**($72,962)**	**($72,962)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$31,205**	**($40,539)**	**($39,280)**	**($37,977)**
Cash On Cash						-4.2%	-4.1%	-3.9%
Disposition								
Residential Home								
Sale Price					$1,225,000			
Less Commissions					($61,250)			
Net Proceeds					$1,163,750			
Residential Units (2 Units)								
Cap Rate								5.00%
Next Year NOI								$36,333
Asset Value								$726,657
Asset Value Per Net SF								$606
Asset Value Per Unit								$363,329
Sale Price								$726,657
Less: Commissions & Closing Costs								($14,533)
Less: Principal Balance of Loan O/S								($2,244,976)
Net Proceeds from Disposition								**($1,532,851)**
Total Cash Flow Before Taxes			**($1,910,000)**	**$947,868**	**$1,194,955**	**($40,539)**	**($39,280)**	**($1,570,828)**
IRR	**#NUM!**							

Notes:

[1] $100 per unit per month

[2] 1.1% of 90% of construction costs

1610 Union Street

Alternative 3

Relocate & Rehabilitate Existing Structures; Build 35 Efficiency Units + 1 SFR

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential).	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$10,580,915
Asset Value PSF	$812

BUILDING ASSUMPTIONS

Project FAR	6.3
Units Per Acre	305
# Units	36
Land S.F.	5,000
Gross Building Area (60% Efficiency)	31,722
Efficiency	60%
Net Rentable Area	18,875

FINANCING

Construction Financing:		
Loan Amount		$9,951,802
Loan to Cost		70%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Base Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
Efficiency Units	31	89%	375	11,625	$1,500	$4.00
Total Market Rate	**31**	**89%**	**375**	**11,625**	**$1,500**	**$4.00**
Affordable Units (Very Low)						
Efficiency Units	4	11%	375	1,500	$709	$1.89
Subtotal	*4*	*11%*	*375*	*1,500*	*$709*	*$1.89*
Retail S.F.		**1,400**				
Retail NNN Rent/Mo.		**$4.00**				
Single Family Home	4,350	square feet				
Sale Period	2					
Sale Price	$2,600,000					
Less: Commission (5.0%)	($130,000)					
Net Sales Revenue	$2,470,000					

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$53,056	$60.21
Relocation & Rehabilitation	$1,712,805	$47,578	$53.99
Hard Costs	$8,437,338	$234,371	$265.98
Soft Costs	$1,654,598	$45,961	$52.16
Financing	$502,118	$13,948	$15.83
Total Project Costs	**$14,216,859**	**$394,913**	**$448.17**
Less: Loan Amount	$9,951,802	$276,439	$313.72
Initial Investment:	$4,265,058	$118,474	$134.45

INVESTMENT PERFORMANCE

Stabilized NOI	Year 2		$468,590
Total Project Costs			$14,216,859
Stabilized Yield On Cost			**3.3%**
		Cash On Cash	Cash Flow
Initial			($1,910,000)
Year 1		-55.2%	($2,355,058)
Year 2		82.3%	$3,508,590
Year 3		3.7%	$159,566
Year 4		4.1%	$174,436
Year 5		15.0%	$639,371
Total Profit			**$216,905**
Before Tax IRR			**2.5%**
Total Gross Sales Revenue			$13,780,915
Total Profit			$216,905
Margin On Revenue			**1.6%**
Total Project Costs			$14,216,859
Total Profit			$216,905
Margin On Cost			**1.5%**

Source: The London Group Realty Advisors

1610 Union Street

Alternative 3

Construction Costs

Units	36
Gross S.F.	31,722

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$53,056	$60.21
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$53,056	$60.21
Relocation & Rehabilitation				
Acquisition of New Site		$895,000	$24,861.11	$28.21
Cost to Move Structure		$62,930	$1,748	$1.98
Restoration/Rehabilitation Costs (2,013 SF Home)	$375 psf	$754,875	$20,969	$23.80
Subtotal Hard Costs		$1,712,805	$47,578	$53.99
Hard Costs				
Residential Construction (Single-Family Home)	$400 psf	$1,740,000	$48,333	$54.85
Residential Construction (Efficiency Units)	$230 psf	$5,973,560	$165,932	$188.31
Retail Construction	$230 psf	$322,000	$8,944	$10.15
Contingency	5.0%	$401,778	$11,161	$12.67
Subtotal Hard Costs		$8,437,338	$234,371	$265.98
Soft Costs				
Indirects	18.0%	$1,654,598	$45,961	$52.16
Subtotal Soft Costs		$1,654,598	$45,961	$52.16
Financing Costs				
Construction Loan Interest		$436,815	$12,134	$13.77
Loan Fee	0.75%	$65,303	$1,814	$2.06
Subtotal Financing Costs		$502,118	$13,948	$15.83
Total Construction Costs		**$14,216,859**	**$394,913**	**$448**

Source: The London Group Realty Advisors

1610 Union Street
Alternative 3
Cash Flow Forecast

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					31	31	31	31
Units Leased (Market Rate)					31	31	31	31
Units Leased (Affordable)					4	4	4	4
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$1,500	$1,545	$1,591	$1,639	$1,688
Monthly Rent Per S.F. (Market Rate)				$4.00	$4.12	$4.24	$4.37	$4.50
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$500,580	$515,597	$531,065	$546,997
Gross Rental Income (Affordable Units)				0	$34,032	$34,032	$34,032	$34,032
Retail Income (NNN)				$0	$71,292	$73,431	$75,634	$77,903
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$605,904**	**$623,061**	**$640,732**	**$658,932**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($43,697)	($44,571)	($45,462)	($46,371)
Less: Property Taxes[2]	($2,903)	2.0%		$0	($93,618)	($95,490)	($97,400)	($99,348)
Operating Expenses Per Unit	**($4,103)**			**$0**	**($137,315)**	**($140,061)**	**($142,862)**	**($145,719)**
Operating Expense Ratio						**27%**	**27%**	**27%**
Net Operating Income				**$0**	**$468,590**	**$483,000**	**$497,869**	**$513,213**
Less: I/O (interim) financing				$0	$0	($323,434)	($323,434)	($323,434)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($323,434)**	**($323,434)**	**($323,434)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$468,590**	**$159,566**	**$174,436**	**$189,780**
Cash On Cash						3.7%	4.1%	4.4%

Disposition

	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
New Residential Home						
Sale Price			$2,600,000			
Less Commissions			($130,000)			
Net Proceeds			$2,470,000			
Relocated 2,013 SF Home						
Sale Price			$600,000			
Less Commissions			($30,000)			
Net Proceeds			$570,000			
Efficiency Units (35 Units)						
Cap Rate						5.00%
Next Year NOI						$448,805
Asset Value						$8,976,109
Asset Value Per Net SF						$772
Asset Value Per Unit						$256,460
Retail (1,400 SF)						
Cap Rate						5.00%
Next Year NOI						$80,240
Asset Value						$1,604,806
Asset Value Per Net SF						$1,146
Sale Price						$10,580,915
Less: Commissions & Closing Costs						($179,522)
Less: Principal Balance of Loan O/S						($9,951,802)
Net Proceeds from Disposition						**$449,591**

		Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total Cash Flow Before Taxes		**($1,910,000)**	**($2,355,058)**	**$3,508,590**	**$159,566**	**$174,436**	**$639,371**
IRR	**2.5%**						

Notes:

[1] $100 per unit per month

[2] 1.1% of 90% of construction costs

CORPORATE PROFILE

THE LONDON GROUP
Realty Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

To answer these questions we conduct market analysis, feasibility studies, provide financial structuring advice and general economic consulting. Often we 'package' the deal and provide access to capital sources. We also have capabilities in pre-development consulting including asset management and disposition and in providing team coordination, processing and disposition services (packaging and promotion).

The Real Estate & Economic Monitor is a newsletter published by The London Group providing market trend analysis and commentary for the serious real estate investor. The principals of the firm, Gary London and Nathan Moeder, bring acknowledged credentials and experience as advisors and analysts to many successful projects and assignments throughout North America. It is available and regularly updated on the World Wide Web at the following address: http://www.londongroup.com/.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff.

Clients who are actively investigating and investing in apartment projects, retail centers and commercial projects have regularly sought our advice and financial analysis capabilities.

We have analyzed, packaged and achieved capital for a wide variety of real estate projects including hotels, office buildings, retail shopping centers and residential housing communities. We are generalists with experiences ranging from large scale, master planned communities to urban redevelopment projects, spanning all land uses and most development issues. These engagements have been undertaken throughout North America for a number of different clients including developers, investors, financial institutions, insurance companies, major landholders and public agencies.

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THE LONDON GROUP
Realty Advisors

December 7, 2016

Mr. Jonathan Segal
Jonathan Segal FAIA & Development Company

Via email: jonathansegal@yahoo.com; mrmatthewsegal@gmail.com

RE: Economic Alternative Analysis for 1610 Union Street

Jonathan Segal FAIA & Development Company currently owns an approximately 5,000 square foot lot at 1610 Union Street in the Little Italy neighborhood of Downtown San Diego. The property is located on the northwest corner of Union Street and West Cedar Street. The site currently contains a 2,013 square foot single-family home, 816 square feet of commercial space and an 816 square foot garage.

The London Group Realty Advisors has completed an economic analysis of various development options for the property. The purpose of this analysis is to analyze the proposed Base Project and the financial impacts and economic feasibility of the development alternatives.

We have analyzed three development options for the property, which include:

- Base Project: demolish existing structures and construct a 3,681 square foot home, 2,585 square feet of retail and 42 efficiency units with an average unit size of 389 square feet.

- Alternative 1: rehabilitate the existing 2,013 square foot home, 816 square feet of commercial and an 816 square foot garage.

- Alternative 2: rehabilitate the existing 2,013 square-foot home and demolish commercial space to construct two additional residential units at 600 square feet each.

- Alternative 3: relocate and rehabilitate the existing structures to construct a 3,681 square foot home, 2,585 square feet of retail and 42 efficiency units with an average unit size of 389 square feet.

El Cortez Building
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Conclusions of Economic Alternatives

We analyzed the project performance of the Base Project that is proposed for the property. The Base Project includes construction of a new 3,681 square foot single-family home, 2,585 square feet of retail and 42 efficiency rental units.

We have assumed a 12-month construction period with the single family home being sold when construction is completed. The rental units and commercial space is assumed to sold at the end of the five-year investment period. The following table summarizes the impacts to the Base Project under each of the two alternatives:

1610 Union Street - Little Italy, CA
Summary of Scenarios

Base Project
42 Efficiency Units + 1 SFR

# of Units	**43**
For Sale Residential	3,681
Rental Residential	16,331
Rental Retail	2,585
Total Net Useable	22,597

Profit	**$2,370,117**

Performance

Total Gross Sales Revenue	**$15,777,492**
Margin On Revenue	**15.0%**
Total Project Costs	**$14,540,730**
Margin On Cost	**16.3%**

Alternative 1
Rehab Existing House & Commercial

# of Units	**2**
For Sale Residential	2,013
For Sale Commercial	816
Total Net Useable	2,829
Garage S.F.	816
Total S.F.	3,645
Difference (Net S.F.)	(19,768)
Difference (%)	87%

Profit	($1,667,772)
Difference ($)	(4,037,889)
Difference (%)	-170%

Total Gross Sales Revenue	**$1,525,347**
Margin On Revenue	**-109.3%**
Total Project Costs	**$3,116,852**
Margin On Cost	**-53.5%**

Alternative 2
Rehab Existing House & Construct 2 Units

# of Units	**3**
For Sale Residential	2,013
For Sale Commercial	1,200
Total Net Useable	3,213
Difference (S.F.)	(19,384)
Difference (%)	86%

Profit	($1,417,825)
Difference ($)	(3,787,942)
Difference (%)	-160%

Total Gross Sales Revenue	**$1,951,657**
Margin On Revenue	**-72.6%**
Total Project Costs	**$3,207,108**
Margin On Cost	**-44.2%**

Alternative 3
Relocate & Rehab 2,013 SF Home

# of Units	**43**
For Sale Residential	3,681
Rental Residential	16,331
Rental Retail	2,585
Relocated Home	2,013
Total Net Useable	24,610
Difference (S.F.)	2,013
Difference (%)	9%

Profit	$980,869
Difference ($)	(1,389,248)
Difference (%)	-59%

Total Gross Sales Revenue	**$16,350,801**
Margin On Revenue	**6.0%**
Total Project Costs	**$16,411,916**
Margin On Cost	**6.0%**

Source: The London Group Realty Advisors

We have determined that only the Base Project is economically feasible. This project is forecasted to generate a total profit of $2.37 million, which when compared to the total revenue of the project represents a Margin on Revenue of 15.0%.

Based on performing feasibility analyses and consulting services on hundreds of real estate projects, it is our experience that a redevelopment project requires the Margin on Revenue to exceed 10% for a project to be economically feasible and to qualify for project financing. In fact, even a low Margin on Revenue of 10% to 15% is still a challenge to achieve financing.

The internal rate of return (IRR) of the Base Project is forecasted to be 19%. This also demonstrates that the project is economically feasible. The typical minimum IRR for rental housing projects range from 13% to 15%. Any IRR below this range would struggle to attract investors and achieve project financing.

Both Alternative 1 and Alternative 2 are not economically feasible. Due to the high rehabilitation costs, as well as compact size of the site, more expensive construction methods and materials are required. This results in the project costs exceeding the revenues. Both alternatives result in a financial loss for the developer ranging from $1.4 million to $1.7 million. The resulting profit margins and IRR are also negative for the alternatives, which demonstrates infeasibility because positive returns cannot be generated.

To further illustrate the infeasibility of the two alternatives, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot (compared to current value of $382 per square foot), both alternatives still result in a financial loss for the developer. This suggests that the challenge to developing this property is not the acquisition price, but the high costs of construction due to the small-scale site that requires more expensive construction methods.

Alternative 3, which relocates the structure to another neighborhood (e.g. Logan Heights area) is not economically feasible. Due to the moving costs, high rehabilitation costs and lower achievable sale price, this alternative results in significant revenue loss for the project. Alternative 3 results in an IRR of only 3.7%, which is much lower than the minimum 13% to 15% required for a project to be financeable and economically feasible. The Margin On Revenue of only 6.0% also falls short of economic feasibility. Overall, Alternative 3 results in an 59% reduction (or $1,389,248) in total profit for the project.

Approach to Analysis

To determine the impact to the project, we prepared financial proformas for the two alternatives and compared the performances to the Base Project proforma. In each proforma, we assumed the following:

- Construction period of 12 months
- Single family home is sold immediately after construction is completed
- The project is stabilized and sold at the end of a five-year investment period.
- Construction costs are provided by the developer and The London Group based on similar projects and construction types.
- Rental rates, sales prices and revenue were established by our survey of market rents for competitive projects in the area.

The following summarizes the financial proformas we have prepared for analyzing the project, which are included in the Appendix.

Base Project

The Base Project includes demolition of the existing structures and construction of a single-family home and 42 efficiency units. The single-family home is assumed to be sold after construction is completed, while the 42 efficiency units (5 units affordable) will be rentals with a total of 20,012 square feet of net rentable area. The project also includes construction of 2,585 square feet of retail space.

The 37 market rate rental units will average 391 square feet in size with an average initial monthly rental rate of $1,500 (in current dollars). The five affordable units will average 372 square feet but will rent for $709 per month (Very Low Income level).

When the single-family home is sold after construction is completed, the forecasted sale price is estimated to be $2,0,201,238. The 42-unit rental project and 2,585 square feet of commercial is assumed to be sold in Year 5 at an estimated value of $13,576,254. The total profit generated from this investment, including the sales revenue and annual cash flows, is forecasted to be $2,370,117.

This net profit of $2.37 million represents a Margin on Revenue of 15.0% when divided by the Gross Sales Revenue of the project ($15.8 million). This suggests that the Base Project is economically feasible. It is our experience that a redevelopment project requires the Margin on Revenue to exceed 10% for a project to be economically feasible and to qualify for project financing.

The internal rate of return (IRR) of the investment is forecasted to be 19%. This also demonstrates that the project is economically feasible. The typical minimum IRR for rental housing projects range from 13% to 15%. Any IRR below this range would struggle to attract investors and achieve project financing.

Alternative 1

Alternative 1 assumes rehabilitation of the existing single-family home (2,013 square feet), the existing commercial space (816 square feet) and existing garage (816 square feet). Both the single family home and the commercial space are assumed to be sold immediately after construction is completed.

The forecasted sale price for the single-family home is estimated to be $1,225,000 ($609 per square foot). The sale price of the commercial space is forecasted to be $300,347 ($368 per square foot). Total project costs are forecasted at $3,116,852 while total gross sales revenue is forecasted at only $1,525,347. This results in a financial loss for the project, which is forecasted to be negative $1,667,772.

Compared to the Base Project, Alternative 1 represents a reduction of 19,768 net useable square feet, or 87% less space. This has a direct impact to the overall achievable value of the project.

With a total forecasted value at disposition of $1,525,347, Alternative 1 would generate approximately $14,252,145 less revenue than the Base Project (109% reduction). But more importantly the project is not economically feasible because it results in a financial loss of $1,667,772.

To further illustrate the infeasibility of this alternative, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot, the project would still result in a financial loss of $723,859.

Alternative 2

Alternative 2 assumes rehabilitation of the existing single-family home, the demolition of the existing commercial space and construction of two new residential rental units. The existing single-family home is 2,013 square feet and the newly constructed rental units would total 1,200 square feet (600 square feet each).

When the single-family home is sold after construction is completed, the forecasted sale price is estimated to be $1,225,000 ($609 per square foot). The sale price of the two rental units that are sold in Year 5 is forecasted to be $726,657 ($606 per square foot). Total project costs are forecasted at $3,207,108 but the total sales value of the project is only $1,951,657, which represents a loss in value of $1,255,451.

Including the annual cash flow from operations and accounting for sale commissions, Alternative 2 results in a financial loss of $1,417,825, which demonstrates that the project is not economically feasible.

Compared to the Base Project, Alternative 2 represents a reduction of 19,384 net useable square feet, or 86% less space. This has a direct impact to the overall achievable value of the project.

With a total forecasted value at disposition of $1,951,657, Alternative 2 would generate approximately $13,825,835 less revenue than the Base Project (73% reduction). But more importantly the project is not economically feasible because it results in a financial loss of $1,417,825.

To further illustrate the infeasibility of this alternative, even if the cost of acquiring the land were reduced to a significantly lower, below-market value of $200 per square foot, the project would still result in a loss of $172,004.

Alternative 3

Alternative 3 assumes relocation and rehabilitation of the existing single-family home to construct a 3,681 square foot home, 2,585 square feet of retail and 42 efficiency units (5 units affordable) with an average unit size of 389 square feet.

When the relocated and rehabilitated home is sold, the forecasted sale price is estimated to be $600,000 ($298 per square foot). The newly constructed single-family home at the new project is assumed to be sold after construction is completed, the forecasted sale price is estimated to be $2,201,238 ($598 per square foot). Total project costs are forecasted at $16,411,916.

Including the annual cash flow from operations and accounting for sale commissions, Alternative 3 generates a profit of $980,869, which represents an IRR of 7.4% and a Margin On Revenue of 6.0%.

For a project to be financeable and economically feasible, the IRR needs to achieve a minimum of 13% to 15%. Similarly, the Margin on Revenue needs to be in the range of 10% to 15%, but even at this range projects have difficulty getting financed. Therefore, Alternative 3 is not an economically feasible alternative.

In addition, compared to the Base Project, Alternative 3 represents a 59% reduction in total profit generated by the development.

Should you have any questions regarding this analysis, please contact us.

Sincerely,

Gary H. London Nathan Moeder

APPENDIX

1610 Union Street

Base Project

42 Efficiency Units + 1 SFR

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential):	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$13,576,254
Asset Value PSF	$796

BUILDING ASSUMPTIONS

Project FAR	7.0
Units Per Acre	366
# Units	43
Land S.F.	5,000
Gross Building Area (60% Efficiency)	34,922
Efficiency	65%
Net Rentable Area	22,597

FINANCING

Construction Financing:		
Loan Amount		$10,905,547
Loan to Cost		75%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Base Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
Efficiency Units	37	88%	391	14,469	$1,500	$3.84
Total Market Rate	**37**	**88%**	**391**	**14,469**	**$1,500**	**$3.84**
Affordable Units (Very Low)						
Efficiency Units	5	12%	372	1,862	$709	$1.90
Subtotal	*5*	*12%*	*372*	*1,862*	*$709*	*$1.90*
Retail S.F.		**2,585**				
Retail NNN Rent/Mo.		**$4.00**				
Single Family Home	3,681	square feet				
Sale Period	2					
Sale Price	$2,201,238					
Less: Commission (5.0%)	($110,062)					
Net Sales Revenue	$2,091,176					

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$44,419	$54.69
Hard Costs	$10,230,722	$237,924	$292.96
Soft Costs	$1,841,530	$42,826	$52.73
Financing	$558,478	$12,988	$15.99
Total Project Costs	**$14,540,730**	**$338,157**	**$416.38**
Less: Loan Amount	$10,905,547	$253,617	$312.28
Initial Investment:	$3,635,182	$84,539	$104.09

INVESTMENT PERFORMANCE

		Cash On Cash	Cash Flow
Stabilized NOI	Year 3		$619,937
Total Project Costs			$14,540,730
Stabilized Yield On Cost			**4.3%**
Initial			($1,910,000)
Year 1		-47.5%	($1,725,182)
Year 2		74.1%	$2,692,685
Year 3		7.3%	$265,507
Year 4		7.8%	$284,522
Year 5		76.0%	$2,762,586
Total Profit			**$2,370,117**
Before Tax IRR			**19%**
Total Gross Sales Revenue			$15,777,492
Total Profit			$2,370,117
Margin On Revenue			**15.0%**
Total Project Costs			$14,540,730
Total Profit			$2,370,117
Margin On Cost			**16.3%**

Source: The London Group Realty Advisors

1610 Union Street

Base Project

Construction Costs

Units	43
Gross S.F.	34,922

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$44,419	$54.69
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$44,419	$54.69
Hard Costs				
Residential Construction (Single-Family Home)	$400 psf	$1,472,400	$34,241.86	$42.16
Residential Construction (Efficiency Units)	$230 psf	$6,590,880	$153,276	$188.73
Retail Construction	$230 psf	$594,550	$13,827	$17.03
Parking Garage (5,700 SF)	$200 psf	$1,140,000	$26,511.63	$32.64
Contingency	5.0%	$432,892	$10,067	$12.40
Subtotal Hard Costs		$10,230,722	$237,924	$292.96
Soft Costs				
Indirects	18.0%	$1,841,530	$42,826	$52.73
Subtotal Soft Costs		$1,841,530	$42,826	$52.73
Financing Costs				
Construction Loan Interest		$477,144	$11,096	$13.66
Loan Fee	0.75%	$81,334	$1,891	$2.33
Subtotal Financing Costs		$558,478	$12,988	$15.99
Total Construction Costs		**$14,540,730**	**$338,157**	**$416**

Source: The London Group Realty Advisors

1610 Union Street
Base Project
Cash Flow Forecast

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					37	37	37	37
Units Leased (Market Rate)					37	37	37	37
Units Leased (Affordable)					5	5	5	5
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$1,500	$1,545	$1,591	$1,639	$1,688
Monthly Rent Per S.F. (Market Rate)				$3.84	$3.95	$4.07	$4.19	$4.32
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$593,280	$611,078	$629,411	$648,293
Gross Rental Income (Affordable Units)				0	$42,540	$42,540	$42,540	$42,540
Retail Income (NNN)				$0	$131,636	$135,586	$139,653	$143,843
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$767,456**	**$789,204**	**$811,604**	**$834,676**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($52,436)	($53,485)	($54,555)	($55,646)
Less: Property Taxes[2]	($2,949)	2.0%		$0	($113,512)	($115,782)	($118,097)	($120,459)
Operating Expenses Per Unit	**($4,149)**			**$0**	**($165,948)**	**($169,267)**	**($172,652)**	**($176,105)**
Operating Expense Ratio						**28%**	**27%**	**27%**
Net Operating Income				**$0**	**$601,509**	**$619,937**	**$638,952**	**$658,571**
Less: I/O (interim) financing				$0	$0	($354,430)	($354,430)	($354,430)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($354,430)**	**($354,430)**	**($354,430)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$601,509**	**$265,507**	**$284,522**	**$304,140**
Cash On Cash						7.3%	7.8%	8.4%
Disposition								
Residential Home								
Sale Price					$2,201,238			
Less Commissions					($110,062)			
Net Proceeds					$2,091,176			
Efficiency Units (35 Units)								
Cap Rate								5.00%
Next Year NOI								$530,655
Asset Value								$10,613,094
Asset Value Per Net SF								$734
Asset Value Per Unit								$252,693
Retail (1,400 SF)								
Cap Rate								5.00%
Next Year NOI								$148,158
Asset Value								$2,963,160
Asset Value Per Net SF								$1,146
Sale Price								$13,576,254
Less: Commissions & Closing Costs								($212,262)
Less: Principal Balance of Loan O/S								($10,905,547)
Net Proceeds from Disposition								**$2,458,445**
Total Cash Flow Before Taxes			**($1,910,000)**	**($1,725,182)**	**$2,692,685**	**$265,507**	**$284,522**	**$2,762,586**
IRR	**19%**							

Notes:

[1] $100 per unit per month

[2] 1.1% of 90% of construction costs

1610 Union Street
Alternative 1
Rehab Existing House & Commercial Space

Assumptions			
Land (S.F.)	5,000		
Existing House (S.F.)	2,013		
Existing Commercial (S.F.)	816		
Existing Garage (S.F.)	816		
Construction Financing:			
Loan Amount	$2,181,796		
Loan to Cost	70%		
Interest Rate	3.25%		
Term (Months)	24		
Costs		**Costs**	**$/SF of Bldg**
Land Costs			
Land Acquisition		$1,910,000	$524.01
Site Costs		$0	$0.00
Subtotal Land Costs		$1,910,000	$524.01
Hard Costs			
Residential Rehabilitation	$300 psf	$603,900	$165.68
Commercial Rehabilitation	$200 psf	$163,200	$44.77
Garage Rehabilitation	$150 psf	$122,400	$33.58
Contingency	5.0%	$38,355	$10.52
Subtotal Hard Costs		$927,855	$254.56
Soft Costs			
Indirects	18.0%	$167,014	$45.82
Subtotal Soft Costs		$167,014	$45.82
Financing Costs			
Construction Loan Interest		$95,705	$26.26
Loan Fee	0.75%	$16,278	$4.47
Subtotal Financing Costs		$111,983	$30.72
Total Construction Costs		**$3,116,852**	**$855.10**
Revenue			
Sale Price Residential	$609 psf	$1,225,000	$336.08
Less: Commission	5.0%	($61,250)	($16.80)
Net Sales Revenue Residential		$1,163,750	$319.27
Sale Price Commercial	$368 psf	$300,347	$82.40
Less: Commission	5.0%	($15,017)	($4.12)
Net Sales Revenue Commercial		$285,330	$78.28
Total Net Revenue		**$1,449,080**	**$397.55**
Net Profit		**($1,667,772)**	**($457.55)**
Profit Percent of Sales		**-136.1%**	
Performance			
Total Gross Sales Revenue		$1,525,347	$418.48
Total Profit		($1,667,772)	($457.55)
Margin On Revenue		**-109.3%**	
Total Project Costs		$3,116,852	$855.10
Total Profit		($1,667,772)	($457.55)
Margin On Cost		**-53.5%**	

1610 Union Street

Alternative 2

2 Rental Units + Rehabilitate House

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential):	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$726,657
Asset Value PSF	$606

BUILDING ASSUMPTIONS

Project FAR	0.8
Units Per Acre	17
# Units	3
Land S.F.	5,000
Gross Building Area (60% Efficiency)	4,013
Efficiency	80%
Net Rentable Area	3,213

FINANCING

Construction Financing:		
Loan Amount		$2,244,976
Loan to Cost		70%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Alt 1 Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
1 BD	2	100%	600	1,200	$2,400	$4.00
Total Market Rate	**2**	**100%**	**600**	**1,200**	**$2,400**	**$4.00**
Affordable Units (Very Low)						
Subtotal						
Retail S.F.		**0**				
Retail NNN Rent/Mo.		**$0.00**				

Single Family Home	2,013	square feet
Sale Period	2	
Sale Price	$1,225,000	
Less: Commission (5.0%)	($61,250)	
Net Sales Revenue	$1,163,750	

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$636,667	$475.95
Hard Costs	$1,001,595	$333,865	$249.59
Soft Costs	$180,287	$60,096	$44.93
Financing	$115,226	$38,409	$28.71
Total Project Costs	**$3,207,108**	**$1,069,036**	**$799.18**
Less: Loan Amount	$2,244,976	$748,325	$559.43
Initial Investment:	$962,132	$320,711	$239.75

INVESTMENT PERFORMANCE

Stabilized NOI	Year 2		$31,205
Total Project Costs			$3,207,108
Stabilized Yield On Cost			**1.0%**
		Cash On Cash	Cash Flow
Initial			($1,910,000)
Year 1		98.5%	$947,868
Year 2		124.2%	$1,194,955
Year 3		-4.2%	($40,539)
Year 4		-4.1%	($39,280)
Year 5		-163.3%	($1,570,828)
Total Profit			**($1,417,825)**
Before Tax IRR			**#NUM!**
Total Gross Sales Revenue			$1,951,657
Total Profit			($1,417,825)
Margin On Revenue			**-72.6%**
Total Project Costs			$3,207,108
Total Profit			($1,417,825)
Margin On Cost			**-44.2%**

Source: The London Group Realty Advisors

1610 Union Street

Alternative 2

Construction Costs

Units	3
Gross S.F.	4,013

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$636,667	$475.95
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$636,667	$475.95
Hard Costs				
Residential Construction (Single-Family Home)	$300 psf	$603,900	$201,300.00	$150.49
Residential Construction (2 Units)	$175 psf	$350,000	$116,667	$87.22
Retail Construction	$0 psf	$0	$0	$0.00
Contingency	5.0%	$47,695	$15,898	$11.89
Subtotal Hard Costs		$1,001,595	$333,865	$249.59
Soft Costs				
Indirects	18.0%	$180,287	$60,096	$44.93
Subtotal Soft Costs		$180,287	$60,096	$44.93
Financing Costs				
Construction Loan Interest		$98,476	$32,825	$24.54
Loan Fee	0.75%	$16,749	$5,583	$4.17
Subtotal Financing Costs		$115,226	$38,409	$28.71
Total Construction Costs		**$3,207,108**	**$1,069,036**	**$799**

Source: The London Group Realty Advisors

1610 Union Street
Alternative 2
Cash Flow Forecast

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					2	2	2	2
Units Leased (Market Rate)					2	2	2	2
Units Leased (Affordable)					0	0	0	0
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$2,400	$2,472	$2,546	$2,623	$2,701
Monthly Rent Per S.F. (Market Rate)				$4.00	$4.12	$4.24	$4.37	$4.50
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$59,328	$61,108	$62,941	$64,829
Gross Rental Income (Affordable Units)				0	$0	$0	$0	$0
Retail Income (NNN)				$0	$0	$0	$0	$0
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$59,328**	**$61,108**	**$62,941**	**$64,829**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($2,497)	($2,547)	($2,598)	($2,650)
Less: Property Taxes[2]	($12,316)	2.0%		$0	($25,626)	($26,139)	($26,661)	($27,195)
Operating Expenses Per Unit	**($13,516)**			**$0**	**($28,123)**	**($28,686)**	**($29,259)**	**($29,844)**
Operating Expense Ratio						**47%**	**46%**	**46%**
Net Operating Income				**$0**	**$31,205**	**$32,422**	**$33,682**	**$34,985**
Less: I/O (interim) financing				$0	$0	($72,962)	($72,962)	($72,962)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($72,962)**	**($72,962)**	**($72,962)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$31,205**	**($40,539)**	**($39,280)**	**($37,977)**
Cash On Cash						-4.2%	-4.1%	-3.9%
Disposition								
Residential Home								
Sale Price					$1,225,000			
Less Commissions					($61,250)			
Net Proceeds					$1,163,750			
Residential Units (2 Units)								
Cap Rate								5.00%
Next Year NOI								$36,333
Asset Value								$726,657
Asset Value Per Net SF								$606
Asset Value Per Unit								$363,329
Sale Price								$726,657
Less: Commissions & Closing Costs								($14,533)
Less: Principal Balance of Loan O/S								($2,244,976)
Net Proceeds from Disposition								**($1,532,851)**
Total Cash Flow Before Taxes			**($1,910,000)**	**$947,868**	**$1,194,955**	**($40,539)**	**($39,280)**	**($1,570,828)**
IRR	**#NUM!**							

Notes:
[1] $100 per unit per month
[2] 1.1% of 90% of construction costs

1610 Union Street

Alternative 3

Relocate & Rehabilitate Existing Structures; Build 42 Efficiency Units + 1 SFR

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential):	5.00%
Cap Rate On Sale (Retail):	5.00%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$13,549,563
Asset Value PSF	$795

BUILDING ASSUMPTIONS

Project FAR	7.0
Units Per Acre	366
# Units	43
Land S.F.	5,000
Gross Building Area (60% Efficiency)	34,922
Efficiency	65%
Net Rentable Area	22,597

FINANCING

Construction Financing:		
Loan Amount		$11,488,341
Loan to Cost		70%
Interest Rate		3.3%
Term (Months)		24
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	5,000
Land Value	$1,910,000
$/S.F. of Land	$382

PROJECT SUMMARY

Base Project	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent
Efficiency Units	37	88%	391	14,469	$1,500	$3.84
Total Market Rate	**37**	**88%**	**391**	**14,469**	**$1,500**	**$3.84**
Affordable Units (Very Low)						
Efficiency Units	5	12%	372	1,862	$709	$1.90
Subtotal	*5*	*12%*	*372*	*1,862*	*$709*	*$1.90*
Retail S.F.		**2,585**				
Retail NNN Rent/Mo.		**$4.00**				

Single Family Home	3,681	square feet
Sale Period	2	
Sale Price	$2,201,238	
Less: Commission (5.0%)	($110,062)	
Net Sales Revenue	$2,091,176	

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Gross S.F.
Land Costs	$1,910,000	$44,419	$54.69
Relocation & Rehabilitation	$1,712,805	$39,833	$49.05
Hard Costs	$10,230,722	$237,924	$292.96
Soft Costs	$1,977,407	$45,986	$56.62
Financing	$580,983	$13,511	$16.64
Total Project Costs	**$16,411,916**	**$381,672**	**$469.96**
Less: Loan Amount	$11,488,341	$267,171	$328.97
Initial Investment:	$4,923,575	$114,502	$140.99

INVESTMENT PERFORMANCE

Stabilized NOI	Year 2		$600,276
Total Project Costs			$16,411,916
Stabilized Yield On Cost			**3.7%**
		Cash On Cash	Cash Flow
Initial			($1,910,000)
Year 1		-61.2%	($3,013,575)
Year 2		66.2%	$3,261,452
Year 3		5.0%	$245,309
Year 4		5.4%	$264,298
Year 5		43.3%	$2,133,385
Total Profit			**$980,869**
Before Tax IRR			**7.4%**
Total Gross Sales Revenue			$16,350,801
Total Profit			$980,869
Margin On Revenue			**6.0%**
Total Project Costs			$16,411,916
Total Profit			$980,869
Margin On Cost			**6.0%**

Source: The London Group Realty Advisors

1610 Union Street

Alternative 3

Relocate & Rehabilitate Existing Structures; Build 42 Efficiency Units + 1 SFR

Units	43
Gross S.F.	34,922

		Costs	$/Unit	$/SF Gross
Land Costs				
Land Acquisition		$1,910,000	$44,419	$54.69
Site Costs		$0	$0	$0.00
Subtotal Land Costs		$1,910,000	$44,419	$54.69
Relocation & Rehabilitation				
Acquisition of New Site		$895,000	$20,813.95	$25.63
Cost to Move Structure		$62,930	$1,463	$1.80
Restoration/Rehabilitation Costs (2,013 SF Home)	$375 psf	$754,875	$17,555	$21.62
Subtotal Hard Costs		$1,712,805	$39,833	$49.05
Hard Costs				
Residential Construction (Single-Family Home)	$400 psf	$1,472,400	$34,242	$42.16
Residential Construction (Efficiency Units)	$230 psf	$6,590,880	$153,276	$188.73
Retail Construction	$230 psf	$594,550	$13,827	$17.03
Parking Garage (5,700 SF)	$200 psf	$1,140,000	$26,511.63	$32.64
Contingency	5.0%	$432,892	$10,067	$12.40
Subtotal Hard Costs		$10,230,722	$237,924	$292.96
Soft Costs				
Indirects	18.0%	$1,977,407	$45,986	$56.62
Subtotal Soft Costs		$1,977,407	$45,986	$56.62
Financing Costs				
Construction Loan Interest		$504,215	$11,726	$14.44
Loan Fee	0.75%	$76,767	$1,785	$2.20
Subtotal Financing Costs		$580,983	$13,511	$16.64
Total Construction Costs		**$16,411,916**	**$381,672**	**$470**

Source: The London Group Realty Advisors

1610 Union Street

Alternative 3

Cash Flow Forecast

Relocate & Rehabilitate Existing Structures; Build 42 Efficiency Units + 1 SFR

	Per Unit	% Increase	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
				2015	2016	2017	2018	2019
			0	1	2	3	4	5
Total Market Rate Units					37	37	37	37
Units Leased (Market Rate)					37	37	37	37
Units Leased (Affordable)					5	5	5	5
Units Vacant				Construction	0	0	0	0
Occupancy Rate					100.0%	100.0%	100.0%	100.0%
Vacancy Rate					0.0%	0.0%	0.0%	0.0%
Monthly Rent (Market Rate)				$1,500	$1,545	$1,591	$1,639	$1,688
Monthly Rent Per S.F. (Market Rate)				$3.84	$3.95	$4.07	$4.19	$4.32
Annual Increase In Rent (Market Rate)					3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)				0	$593,280	$611,078	$629,411	$648,293
Gross Rental Income (Affordable Units)				0	$42,540	$42,540	$42,540	$42,540
Retail Income (NNN)				$0	$131,636	$135,586	$139,653	$143,843
Less: Vacancy & Credit Loss (Residential)				$0	$0	$0	$0	$0
Net Rental Income				**$0**	**$767,456**	**$789,204**	**$811,604**	**$834,676**
	Per Unit	**% Increase**						
Less: Operating Expenses[1]	($1,200)	2.0%		$0	($52,436)	($53,485)	($54,555)	($55,646)
Less: Property Taxes[2]	($2,981)	2.0%		$0	($114,744)	($117,039)	($119,380)	($121,768)
Operating Expenses Per Unit	**($4,181)**			**$0**	**($167,181)**	**($170,524)**	**($173,935)**	**($177,413)**
Operating Expense Ratio						**28%**	**28%**	**27%**
Net Operating Income				**$0**	**$600,276**	**$618,680**	**$637,669**	**$657,262**
Less: I/O (interim) financing				$0	$0	($373,371)	($373,371)	($373,371)
Less: Permanent Debt Service				$0	$0	$0	$0	$0
Subtotal				**$0**	**$0**	**($373,371)**	**($373,371)**	**($373,371)**
Net Proceeds from Refinance:				**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations				**$0**	**$600,276**	**$245,309**	**$264,298**	**$283,891**
Cash On Cash						5.0%	5.4%	5.8%
Disposition								
New Residential Home								
Sale Price					$2,201,238			
Less Commissions					($110,062)			
Net Proceeds					$2,091,176			
Relocated 2,013 SF Home								
Sale Price					$600,000			
Less Commissions					($30,000)			
Net Proceeds					$570,000			
Efficiency Units (35 Units)								
Cap Rate								5.00%
Next Year NOI								$529,320
Asset Value								$10,586,403
Asset Value Per Net SF								$732
Asset Value Per Unit								$252,057
Retail (1,400 SF)								
Cap Rate								5.00%
Next Year NOI								$148,158
Asset Value								$2,963,160
Asset Value Per Net SF								$1,146
Sale Price								$13,549,563
Less: Commissions & Closing Costs								($211,728)
Less: Principal Balance of Loan O/S								($11,488,341)
Net Proceeds from Disposition								**$1,849,494**
Total Cash Flow Before Taxes			**($1,910,000)**	**($3,013,575)**	**$3,261,452**	**$245,309**	**$264,298**	**$2,133,385**
IRR	**7.4%**							

Notes:

[1] $100 per unit per month

[2] 1.1% of 90% of construction costs

CORPORATE PROFILE

THE LONDON GROUP
Realty Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

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