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# The Blocks at Northgate

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THE BLOCKS AT NORTHGATE

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## Executive Summary

### *The Blocks at Northgate*

Pordeco LLC has devised a low-risk, phased and flexible development strategy to create a new mixed-use development in the heart of the revitalized Northgate district in Seattle, Washington. When complete, The Blocks at Northgate (The Blocks) will offer affordable workforce rental housing and supporting commercial services oriented around a village green on a highly accessible and visible 8.4-acre site just north of the Northgate Mall. Specifically, The Blocks will more than triple the residential density on the site of the existing Northgate Apartments to 683 units and will include over 5,000 square feet of leasable commercial space. The development converts the existing superblock into six separate blocks, including the central green, and the site plan has been designed to engage the new city park located across 3rd Ave NE which will open in 2010.

The development program for The Blocks includes 683 apartment units spread among five building complexes that range in size from 2 to 4 stories above ground-level parking and approximately 5,400 sf of leasable commercial space at the southeast corner of the site. The commercial space fronts on Northgate Way and 3rd Ave NE, where it will be visible from passing motorists and pedestrians.

This proposal envisions a joint venture including a participating ground lease involving the developer Pordeco LLC, the Mullally family who owns the land, and the Mullally Development Company (MDC) who will operate the development. The Blocks will cost approximately $69.7 million to develop and will achieve a 8.7% return on cost and a 20.6% return on equity.

### *Strategic Considerations*

The proposed development program and site plan for The Blocks at Northgate reflect several strategic considerations made by Pordeco LLC to minimize project risk.

- Conservative Market and Financial Assumptions
  We are now experiencing the worst economic recession in at least 25 years. The housing and commercial development industries have been hit particularly hard due to plummeting market demand and the impact of a credit crisis, which requires more recourse financing, higher levels of equity, and less debt. Simply put, only the most conservative projects based on sound market and financial assumptions are moving forward. This is not the time to experiment with speculative office, retail, hotel or entertainment development concepts or to offer more product than the market can absorb. The Blocks development program was crafted to specifically minimize market and financing risk.

- Phasing & Flexibility
  The Blocks' site plan divides the 8.4-acre site into six blocks that can be developed in five separate phases. This was done for three reasons. First, the phasing allows portions of the existing apartment complex to continue operating while the site is redeveloped thereby preserving a reliable cash flow. Second, by breaking the project into phases it minimizes the amount of new product on the market and allows each phase to be fully leased up before initiating a subsequent phase. Third, the multiple phases provide maximum flexibility for the developers. While the proposed development program for The Blocks is conservative, the development team has the ability to adjust the program upward for future phases if the market recovers and potential rents increase.

- Alternatives Analysis
  Our team considered a wide range of alternative development strategies ranging from a dense urban village with mid-rise condo buildings to a medical services office complex. In addition to the constraints imposed by the deep recession and credit crisis, we determined that the location of the site impeded development of a higher density mixed-use urban center. Reduced to basics, the parking ratios required by the market for a suburban location, especially one distant from a transit station, raise the quantity and cost of structured parking to levels higher than those downtown, while the rents needed to fund that structured parking cost are significantly lower than those that can be charged downtown. Therefore, we were restricted to the density that surface parking could support.

- Maintain Existing Zoning
  The City of Seattle encourages a contract rezone of the property to increase the density and the amount of mixed use in exchange for the developer providing public amenities on site and significant exactions to fund off-site transportation improvements. Pordeco LLC supports the goals outlined in the Northgate Plan and the design guidelines in the Northgate Overlay District. However, due to the poor market and financing conditions that exist, Pordeco LLC has consciously decided to maintain the existing Midrise Residential zoning and avoid the time, uncertainty and costs associated with a discretionary rezoning process. The existing zoning is sufficient for The Blocks development program since increased height and commercial uses are not supported by our market research. Further, by developing under the current zoning, Pordeco LLC can

potentially avoid a $2.4 million exaction by the City to pay for intersection improvements at Northgate Way and 3rd Ave NE. While the economics of the site and market do not support such expensive intersection improvement, our development plan has been designed to help reinforce 3rd Avenue as a green street that will form a one-mile long pedestrian-oriented green spine from 117th Street, through Northgate Mall, by the new Light Rail Station all the way to 97th St.

- Cost Control
  The final strategic consideration that shaped the development program was controlling costs to keep the residential and commercial rents within the range of what is supportable by the market. No new construction is able to offer rents at or below existing development. Nonetheless, The Blocks will avoid pioneering a new price point well above what the market has demonstrated it can support. To achieve this, the site plan and capital budget had to be adjusted to significantly control costs. Two major decisions were made to accomplish this. First, all parking is at grade and, with the exception of on-street parking, located within the first-story podium of each building. Underground or structured parking simply did not pencil out. Second, the project will utilize modular construction that will reduce permitting and on-site construction time by at least four to six months for each phase of development. Modular construction also easily permits changes in unit types and unit mix and even height should the market shift demand from that which we project. However, in the unlikely event that the current cost advantages of modular construction change, our modular designs could easily be constructed in stick-built wood frame.


*Existing Conditions: The Northgate Area is Auto-Oriented with a Suburban Atmosphere*

## Existing Conditions

Our plan takes into account the need to preserve as much net cash flow from the existing site during multiple development phases.

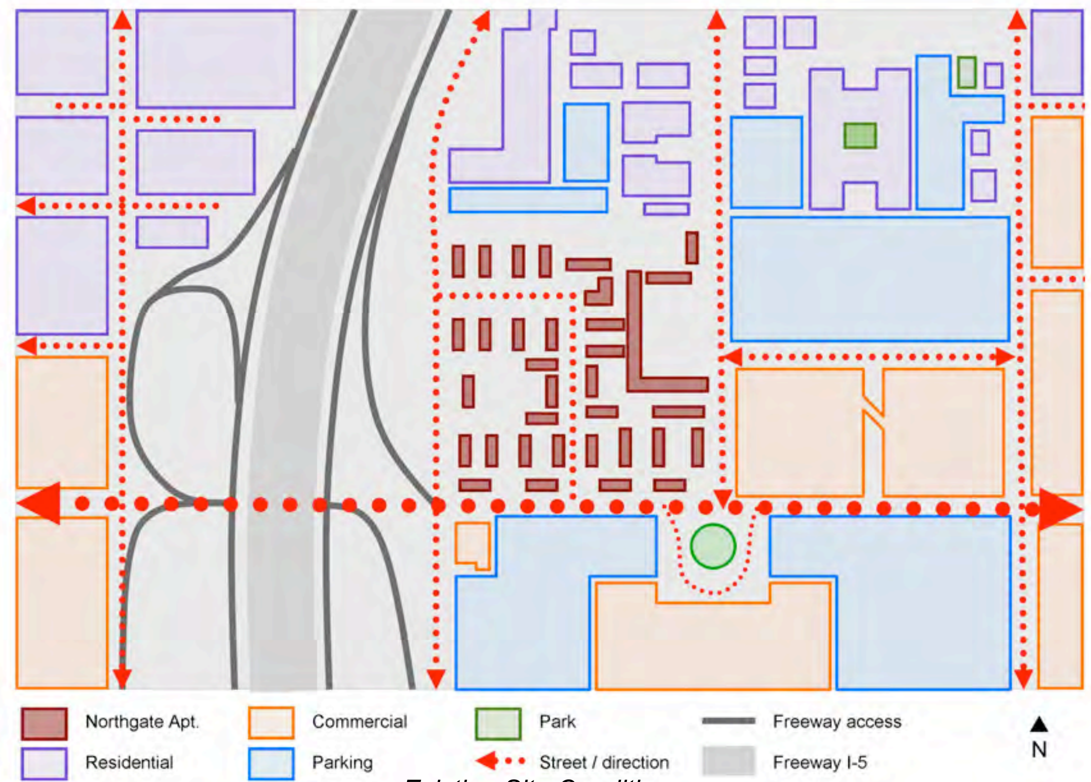
### *Project Site and Context*

The project site is located in the Northgate neighborhood, which is 6 miles north of downtown Seattle. The area was primarily developed in the two decades immediately following World War II (1945-1965). As such, the commercial development is more auto-oriented and the surrounding residential development is lower density than Seattle as a whole.

The Northgate area is anchored by the Northgate Mall, which comprises over one million square feet of commercial space and is owned by The Simon Property Group. The mall underwent a major makeover in 2007 that added 100,000 SF in "lifestyle center" liner stores along the building's western edge. While the remodel attempted to orient the inward-focused mall outward and to enhance pedestrian amenities, it remains a largely auto-oriented development surrounded by surface parking.

The project site comprises 8.4 acres immediately north of the Northgate Mall at the corner of Northgate Way and 3rd Avenue NE. Currently, the site is improved with 207 multifamily residential units called Northgate Apartments. The building stock is 1961 vintage, two-story wood frame buildings. The site is immediately accessible and visible from both I-5 and Northgate Way.

The following table summarizes the rental rates and NOI for the Northgate Apartments broken out by redevelopment phase. The occupancy of Northgate Apartments is currently reported to be 97% and the net operating income from the site is reported to be approximately $500,000.



*Existing Site Conditions*

**Northgate Apartments NOI – Broken Out by Redevelopment Phase**

| Phases | Units | Avg. Rent | Monthly Rent | Annual Rent | % NOI | NOI |
|---|---|---|---|---|---|---|
| Phase 1 | 40 | $824 | $32,960 | $395,520 | 19% | $96,500 |
| Phase 2 | 24 | $824 | $19,776 | $237,312 | 12% | $58,000 |
| Phase 3 | 53 | $824 | $43,672 | $524,064 | 26% | $128,000 |
| Phase 4 | 44 | $824 | $36,256 | $435,072 | 21% | $106,500 |
| Phase 5 | 46 | $824 | $37,904 | $454,848 | 22% | $111,000 |
| **Total** | **207** | | **$170,568** | **$2,046,816** | **100%** | **$500,000** |

## *Northgate Urban Center Park*

Our plan was designed to maximize exposure to the new Northgate Urban Center Park and to extend it into our development.

East of the project site is a large surface parking owned by King County, and operated by the regional transit agency as a park-and-ride. The park-and-ride function has been relocated south of the Northgate Mall and the City of Seattle has purchased the existing park-and-ride site and will convert it into a 3.7-acre community park.

The park design is complete and consists of an historic spring at the center of the site and surrounded by tall conifers. A linear water element called 'the blue streak' will be built at the lowest point on the site, which is the western end closest to the Northgate Apartments. Other park design elements include a large lawn suitable for public gatherings, a playground, and a skate park. Restrooms will be located next to the play area and parking will be limited to on-street spaces.

The park project is divided into multiple phases. The first phase, which will cost $4 million and is expected to begin later this year, will consist of the spring, the blue streak, the main lawn, playground, a gateway plazas and paths. The park will open in 2010.


*Proposed Northate Urban Center Park*

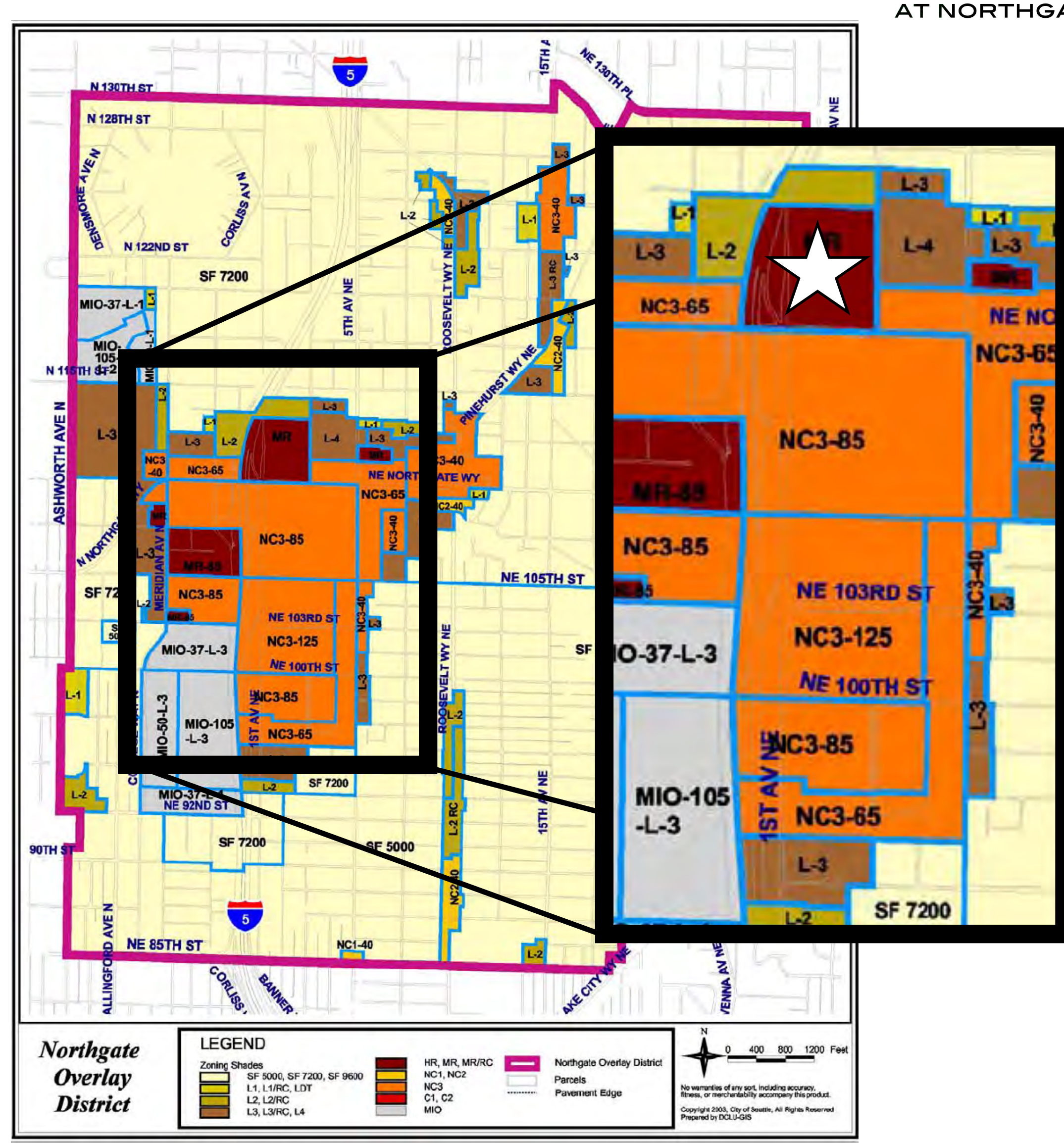
## *Existing Zoning*

**Our plan carefully considered what we could develop within existing zoning and the costs and risks of proposing a plan that would exceed it. We fully develop the site to the maximum density that surface, tuck-under parking will allow and still fall within the constraints of existing zoning.**

**The existing zoning of the project site is Midrise Residential with a height limit of 65 feet and an assumed floor area ratio (FAR) of 2.7. The predominant use allowed is multifamily residential with limited ground-floor commercial uses permitted as long as no single commercial enterprise exceeds 4,000 square feet in size.**

**Under the Midrise Residential zoning, any commercial uses must be located within a one-block radius of an existing commercial zone. Therefore, commercial activity on the site is limited to the southeast corner at Northgate Way and 3rd Ave NE. This restriction is consistent with market needs as any commercial uses would be visible from Northgate Way.**

**Any proposed uses on the site that are not permitted in the Midrise Residential zone would require a contract rezone, a discretionary land use process with the City. According to information from the City, a contract rezone of the site would require the developer to build a pedestrian crossing on Northgate Way at an estimated cost of $2.4 million. Avoiding this significant exaction is one powerful justification for redeveloping the site under the existing zoning. While we agree with the objective of maximum connectivity, the economics of the site and market simply do not produce returns adequate to support expensive infrastructure improvements.**




*Arial View of Surrounding Development Activity*

## Market Conditions

### Market Challenges

The development program for The Blocks at Northgate is shaped by market research and other factors that suggest that apartments and limited ground-floor commercial space are the highest and best use for the site. In making this determination, the Pordeco LLC development team carefully examined several other uses, including for-sale condominiums, retail and office development, and a hotel. The following are the uses that were ultimately eliminated from consideration:

- Condominiums, or other for-sale residential products, were eliminated as an option since the owners of the site, the Mullally family, expressed a strong preference to retain ownership of the site and enter into a ground lease with the developer. While it is possible to have a for-sale product in conjunction with a ground lease, it is more difficult to obtain financing and market to buyers. In these difficult market conditions, we chose not to add that burden. In addition, we think that rental housing offers greater pricing flexibility, higher upside potential and far more attractive financing for our workforce housing.
- The Northgate area has traditionally been a strong retail market, but the retail sector has softened significantly in the past six months and will likely get worse over the next several years as the nation enters an unprecedented retail contraction caused by deleveraging. For example, the recently completed Northgate 507 project lost its major 30,000 SF retail anchor, Circuit City, when the national chain closed all of its outlets last fall. The Northgate North project immediately east of our site suffers from several vacancies. Further, most major retailers are already well represented in the Northgate area and there are no obvious gaps in retail products and services. It would be very difficult to finance a retail

project with more than 10,000 SF of leasable space without an anchor tenant already committed to the project.

- The site has ideal characteristics for office space due to its visibility and accessibility from I-5 and Northgate Way. However, the office vacancy rate in the north Seattle area was 13% in the third quarter of 2008 and the rate is trending higher. As with a large retail center, it would be difficult to obtain financing for speculative office development at this time. More importantly, the parking requirements for office development make the economics extremely challenging. Using a conservative parking ratio of 3 spaces per 1,000 SF of office space (3:1), the project would require below grade or structured parking. The significant cost of structured parking would drive the lease rates to well over $30/SF or more. This rate might be achievable in downtown Seattle, but is well above market for the Northgate area where the rate is significantly under $30/SF. We also investigated the potential for medical service office space. But interviews with executives at Northwest Hospital indicated that their new medical office building on the hospital's main campus fulfilled all the current and projected demand for such space.

- With the 169-room/12-suite Nexus Hotel only 1,000 feet from our site, with competitive rates of $100 - $150, hotel development would be difficult, especially in these conditions. In later phases, should the market adequately rebound, a differentiated all-suite residential hotel may work. At 42%, hotel vacancies are too high at the moment to justify new construction. Nonetheless, the advantage of The Blocks site plan is that it permits the developer flexibility to adjust to changing market demands with each phase. Specifically, the southwest corner of the site to be built in phase four, is an ideal location for a hotel catering to travelers due to the site's visibility and accessibility from I-5 and proximity to Northgate Mall. The residential building planned for this phase can easily be altered to a site for a medium sized (150+ unit) all-suites hotel. We have designed Phase Four with smaller units that work equally well for apartments or a residential hotel. This is a lower-risk strategy that gives us the option to convert in later phases should market demand significantly improve. However, one major consideration is that a hotel is not an allowed use in a Midrise Residential zone so the site would have to be rezoned for a hotel. Any contract rezoning of the site would likely result in an exaction from the City of $2.4 million for an enhanced pedestrian crossing of Northgate Way at 3rd Avenue NE.

### *Highest and Best Use*

Affordable workforce housing represents the highest and best use for the site and the lowest risk in this challenging environment. Once for-sale condominiums, office space, a retail center, and a hotel were eliminated from consideration it became clear that multi-family apartments and limited commercial space are the uses most likely to perform well from a market and economic perspective.

Multi-family apartments are currently on the site and are what the zoning allows as of right. Further, rental housing works with a ground lease arrangement and the Mullally family are successful owners and operators of multi-family developments around Seattle. Most importantly, the vacancy rate for existing apartments in the Northgate area is less than 3% and the housing and credit crises will continue to help the rental market as more first-time buyers are prevented from ownership due to stricter lending guidelines.

Housing in the surrounding neighborhood is largely a mix of single-family homes and apartments with progressively more single-family homes as one moves further from I-5 and the mall. With most apartment rents falling below the average median income ratios, affordable housing dominates the Northgate market. The best way to determine the rents a development could command is to look at what currently exists in the marketplace. The following table summarizes the existing apartments on the site where the average rents are $1.42/SF.

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| Northgate Apartments | | | | | |
|---|---|---|---|---|---|
| | Size | Average Rent | Average Rent PSF | No, Units | % of Project |
| Studio | 400 | $695 | $1.74 | 62 | 30% |
| One Bedroom | 570 | $800 | $1.40 | 86 | 41% |
| Two Bed Room | 780 | $995 | $1.28 | 59 | 29% |
| **Averages** | **579** | **824** | **$1.42** | **207** | **100%** |

The next table lists the rents for the broader Northgate area, which range from $1.14/SF for larger units to $1.56 for studio units. This shows that the Northgate Apartments compare favorably with other apartment developments in the area. These affordable rents likely contribute to the area's relatively low vacancy rate.

| North Seattle All Apartments | | | | | | |
|---|---|---|---|---|---|---|
| | All | Studio | 1 | 2B/1 | 2B/2 | 3B |
| Market Vacancy | 2.7% | 1.4% | 2.5% | 2.5% | 3.3% | 7.7% |
| Average Rent | $923.00 | $765.00 | $840.00 | $978.00 | $11.31 | $14.29 |
| Rent Per NRSF | NA | $1.56 | $1.21 | $1.15 | $1.15 | $1.14 |
| Buildings Surveyed | 90 | $35 | $88 | $68 | 48% | 15% |
| Units Surveyed | 5940 | 367 | 3,408 | 972 | 11 | 1 |

CBRE 2009

New construction usually commands higher rents and the next table includes only apartment developments that have been built since 2000. For these units, the rents range from $1.33/SF for two-bedroom units to $1.74 for studio units.

| North Seattle Apartments Built Since 2000 | | | | | | |
|---|---|---|---|---|---|---|
| | All | Studio | 1 | 2B/1 | 2B/2 | 3B |
| Market Vacancy | 3.5% | 4.2% | 2.2% | 0.0% | 4.9% | 20.0% |
| Average Rent | $1,094.00 | $941.0( | $979.00 | $1,054.00 | $1,353.00 | $1,623.00 |
| Rent Per NRSF | NA | $1.74 | $1.44 | $1.34 | $1.33 | $1.46 |
| Buildings Surveyed | 10 | 6 | 10 | 6 | 0 | 0 |
| Units Surveyed | 868 | 120 | 456 | 30 | 247 | 15 |

CBRE 2009

Finally, it is worth considering a direct comparable built within the past year and located less than two blocks east on Northgate Way. The Northgate 507 developed by Wallace Properties is a 163-unit apartment project with ground-floor commercial space located at the corner of Northgate Way and 5th Avenue NE. The project is mostly made up of studio and one-bedroom units with only six two-bedroom units. The average rental rate is $2.09/SF.

| 507 Northgate | | | | | |
|---|---|---|---|---|---|
| | Size | Average Rent | Average Rent PSF | No, Units | % of Project |
| Studio | 468 | $1,000 | $2.14 | 77 | 47% |
| One Bedroom | 600 | $1,250 | $2.08 | 80 | 49% |
| Two Bed Room | 1150 | $2,150 | $1.87 | 6 | 4% |
| **Averages** | **558** | **1165** | **$2.09** | **163** | **100%** |

In addition to apartments, the market will likely support limited ground-floor commercial space if it is located on Northgate Way near the intersection with 3rd Ave NE. The site is highly visible and will conveniently serve the residents on-site and passersby on adjacent streets, especially the significant amount of traffic using 3rd Ave NE to access to the Northgate North (i.e. Target/Best Buy) development adjacent to the site.

As long as none of the retail establishments exceed 4,000 SF, the ground-floor commercial use is allowed in a Midrise Residential zone by right. As a rule of thumb, speculative retail development should not exceed 10,000 square feet per 1,000 residents. Therefore, our site could support up to 7,000 SF of commercial space. Brokers report that retail rents currently demand $30-$49 SF NNN lease in the Northgate area. Because The Blocks will have such a limited amount of retail space (approximately 5,400 SF in phase three) it should be able to command $35 SF NNN. We were also mindful of the constraints on commercial space in the financing we intend to use. Under HUD 221(d)(4) financing, we could only have up to 10% of the gross floor area of the project and up to 15% of gross project income.

## Competition

The Blocks at Northgate will be more affordable than any of the new competition based on price points and unit sizes. The Blocks' opening average price point is just over $1,000 per month, almost 20% less than Thornton Place and Northgate 507's averages of almost $1,200 per month. These competitors have had to scale back their rent ranges in response to the downturn in the market. Both developments will offer a variety of studio and one-bedroom floor plans with few two-bedroom units. They are proposing slightly larger unit sizes and pushing premium units towards $2,200. Pioneering higher price points in the current market is a risky strategy that The Blocks will avoid.

## Target Market

More than half of all the adults in the Northgate area have a college degree. However, only 14% of the households in the area currently reside with children meaning that the market includes students, young professionals, and empty nesters. While attracted to an urban location only six miles from downtown Seattle, many of the people who settle in Northgate prefer a more suburban environment due to the affordable housing and lower levels of density and congestion.

The target markets for The Blocks are primarily young singles and couples who desire affordable and convenient housing with excellent access to the regional highways and transit systems. This demographic includes:

- Aspiring young urbanites in their mid 20s to late 30s who are priced out of the central Seattle market. These workers will be attracted to our site due to its convenient access from I-5 and the proximity to commercial services at the Northgate Mall.
- Students from the University of Washington and North Seattle Community College. UW is only four miles from the project site and has excellent transit service to Northgate. This connection will improve greatly when the Sound Transit light rail extension from UW to Northgate Mall opens in 2015. NSCC is located just across I-5 from the mall.
- Service and retail workers from the mall and Northwest Hospital.

*Target Demographic*

THE BLOCKS AT NORTHGATE

### *Vacancy Rate*

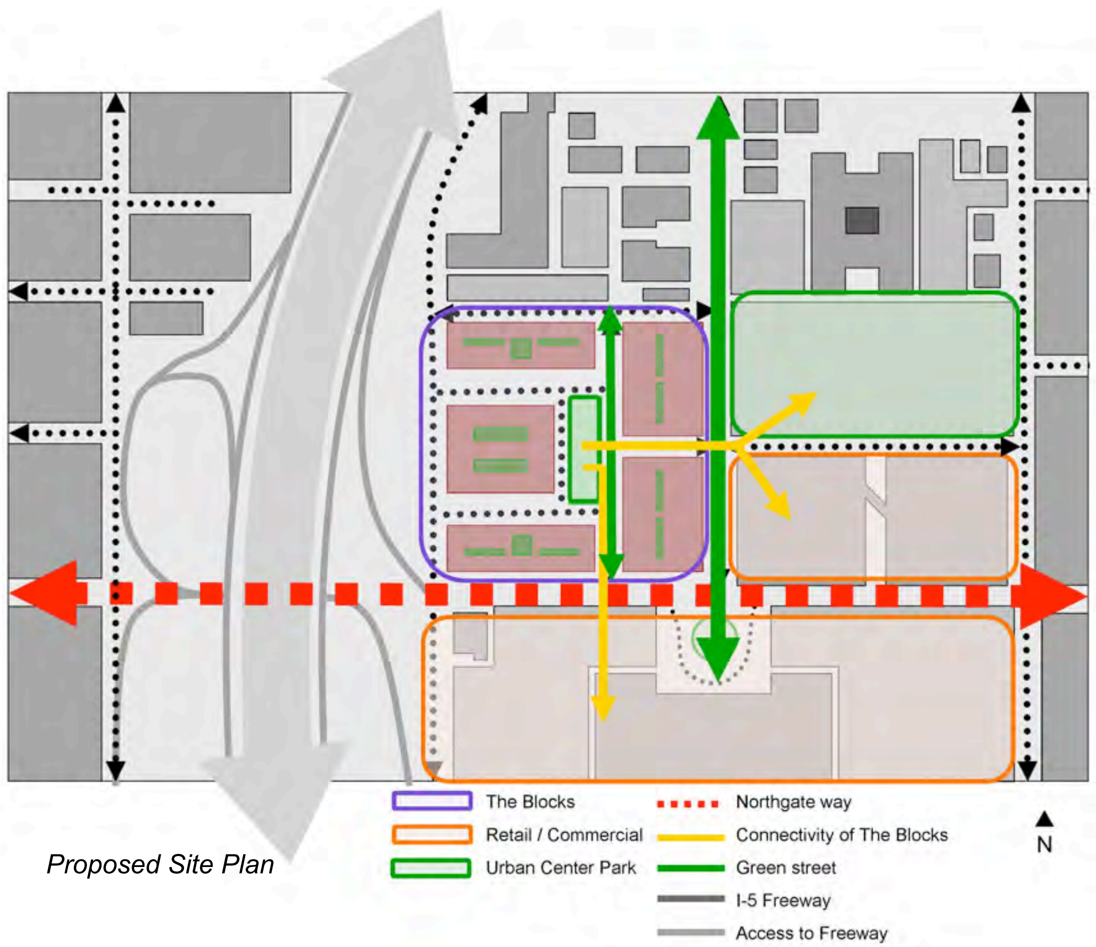
**Apartment vacancies in the Northgate area are very low at only 3% on average. This is likely due to the area's lower rents compared to central Seattle and the University District. The regional vacancy rate is about 5% and that rate is forecasted to peak at 7.8% by 2011 before lowering again. Since our project is coming to market no earlier than 2011 and the Northgate area has a lower vacancy rate than the region's, the project should include a stabilized vacancy rate of 5%.**

### *Absorption*

**There are over 9,000 apartment units planned in the Seattle regional area for 2011 through 2013. In this same time frame absorption rates of new apartments will slow. Previous forecasts called for 40 units per month to be absorbed in the Northgate area based on regional numbers. The Blocks will be the only new offering immediately adjacent to the mall in 2011 and should perform well compared to other projects with less visible and accessible locations.**

**However, with the steady decrease in units taken off the market due to demolition or condo conversion in this same time frame, rates of new apartment absorption will slow. Through displacement of old units (i.e. the existing Northgate Apartments) and a need for affordable market rate housing, The Blocks should maintain an average absorption rate of at least one-third of previous predictions. This means that phase one of the project should lease 14 units per month and stabilize at 5% vacancy in seven to nine months.**

*View From Third Street Entrance*




*Proposed Site Plan*

## Site Plan

### *Phasing Strategy Guides Design*

The existing 8.4-acre site currently acts like a large superblock even though it is divided into two sections by 2nd Ave NE and 112th Street. These two streets serve as residential lanes for residents of the Northgate Apartments and do not carry any through-traffic. In addition to the apartments, the site consists of a single-family lot on 3rd Ave NE. In order to maintain cash flow from as many existing units as feasible during the five-year development period, we divided the superblock into a more urban grid of six blocks while maintaining the existing division between the two existing sections.

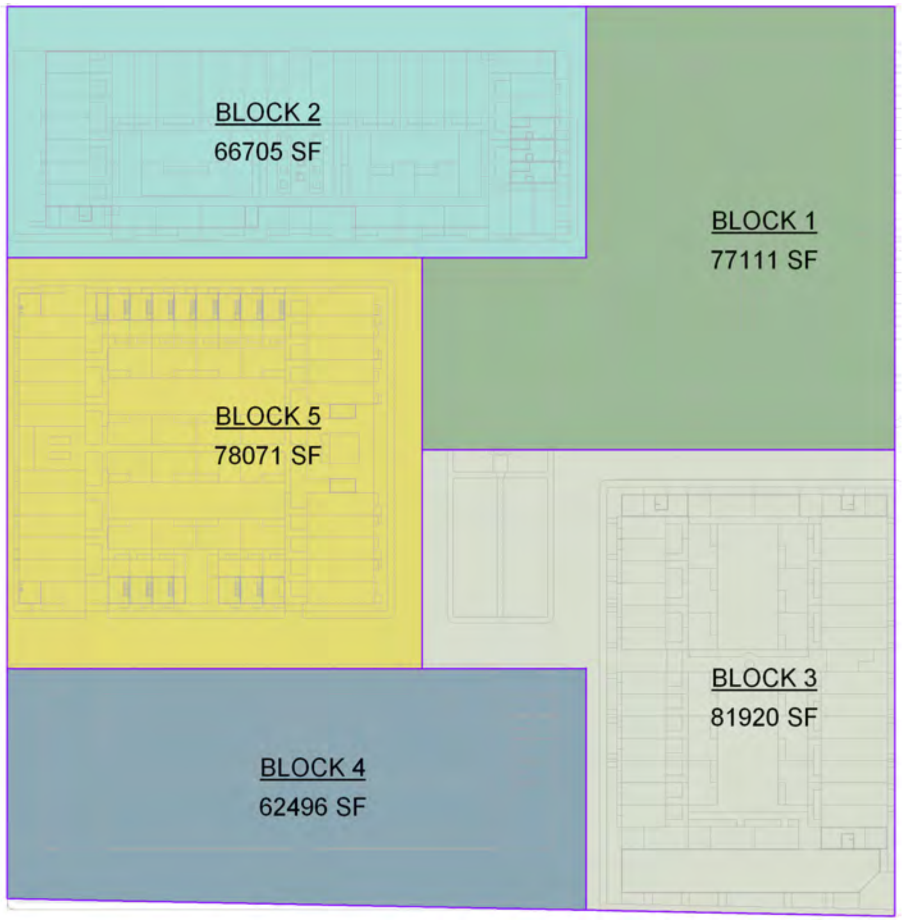
Dividing the site into several phases was a guiding theme of the design process in order to minimize risk, preserve the existing cash flow, and allow for maximum flexibility in future phases.

- At 8.4 acres, the site is too large to redevelop in one phase because it would take up to about six years to lease all of the residential units. This would represent an unacceptably high level of market risk for the development team, especially now that the market has deteriorated significantly and residential absorption has slowed to half of what it was a year ago.

- The existing Northgate Apartments are stable and provide a reliable cash flow to the Mullally family. Dividing the project into phases, it allows as many of the existing units as possible to stay in operation, as demonstrated in the following table. This also presents opportunities to allow existing residents to move from the older units to the new apartments as they come on the market.

- Finally, dividing the project into multiple phases preserves maximum flexibility for the development team to adjust to changing market conditions, preferences, unit sizes, unit mixes and price points. If the demand for larger two-bedroom units grows, the unit mix in future phases can be adjusted. If rents increase significantly and structured or below-grade parking pencils out, then future phases can be more dense. Further, if the rental apartment market declines, but the demand for commercial space or a hotel increases, the development program can be adjusted to capture the emerging demand.

Once a phasing strategy was adopted, the major site design challenge was to preserve as much of the existing apartment units as possible while allowing new phases to be built. A thoughtful integration of the new construction with the existing community is critical to minimise disruptions, tenant complaints and vacancies. The The Blocks' site plan and phasing strategy creates the least conflict as possible.




*Five Phases of Development*

The existing internal streets (2nd Ave NE and 112th Street) act as the community spine and provides access to most of the parking areas and unit entries. Therefore, the streets need to remain in place as long as possible during the phased redevelopment of the site in order to maintain access, utilities, stormwater system, and on-street parking. This phasing is described in detail below.

## *Site and Building Layout*

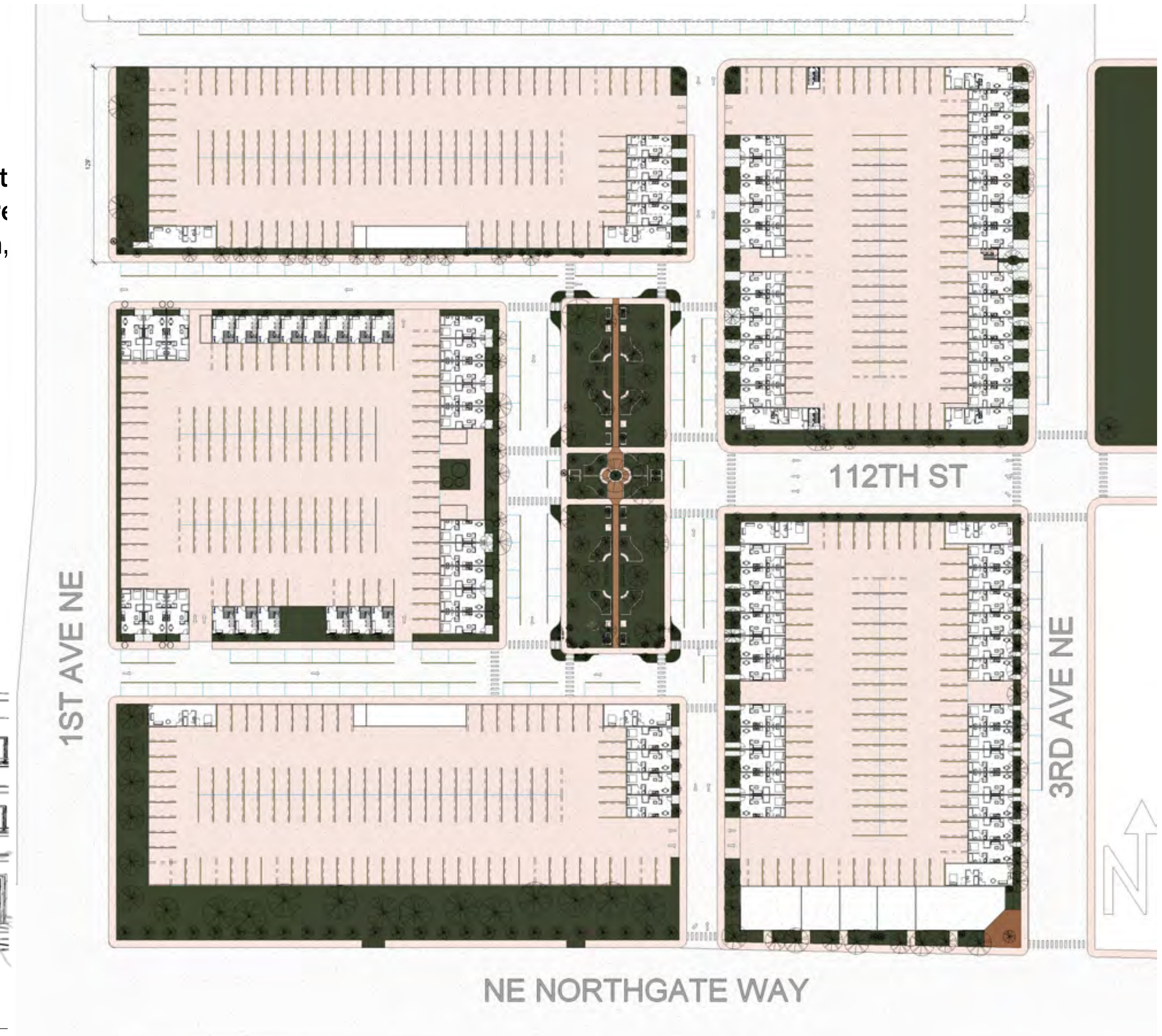
The site plan was shaped in large part by the need to design buildings that span surface parking lots. Since underground and structured parking were ruled out due to economic and site limitations, the density of our site is limited to the amount of parking we can achieve tucked under each of the buildings and on the streets. Therefore, the challenge was to design the exact dimensions of each block to provide for the most efficient parking grid with 60-foot bays (18' space plus 24' aisle plus 18' space equals 60').

The buildings themselves are made up of modular housing units configured around an open courtyard and built atop a concrete platform to separate the parking level from the units above. We adopted the Unico modular housing system which is designed on a 15'x15' grid that can be increased by multiples of 15-feet. The grid works well when supported by structural columns with 30'x30' spacing. When we laid this modular grid over the parking grid with 60-foot bays we achieved a structural marriage between the modular units and the parking below. This dimensional symmetry provided a very efficient and elegant design framework for each of the blocks.

The The Blocks' site plan consists of five building complexes oriented around a 16,500 SF village green. All five complexes are multi-family apartments with the one in the southeast corner (phase three) including 5,400 SF of ground-floor commercial space that fronts Northgate Way. All of the buildings are built over a first-floor podium with tuck-under parking at the ground level and residential units above.  Some buildings also include ground floor units across from the village green and on 3rd Ave.  The buildings range from 3 to 5 stories.

The major vehicular entrance to The Blocks is from 3rd Avenue NE on a new street that as aligns with NE 112th Street (the road that serves the Northgate North development), creating a four-way intersection on 3rd Avenue. The project site is also divided by one north-south street.  The village green is located where these two streets, 2nd Ave and 112thStreet, intersect.  West of the village green, east-west traffic is split into two one-way streets built on either side of Phase Five with westbound traffic north of the building and eastbound traffic on the south side of the building.


*View of the Main Street Entry from Across 3rd Street*



*Site Plan at Level One Shows Tuck-Under Parking*

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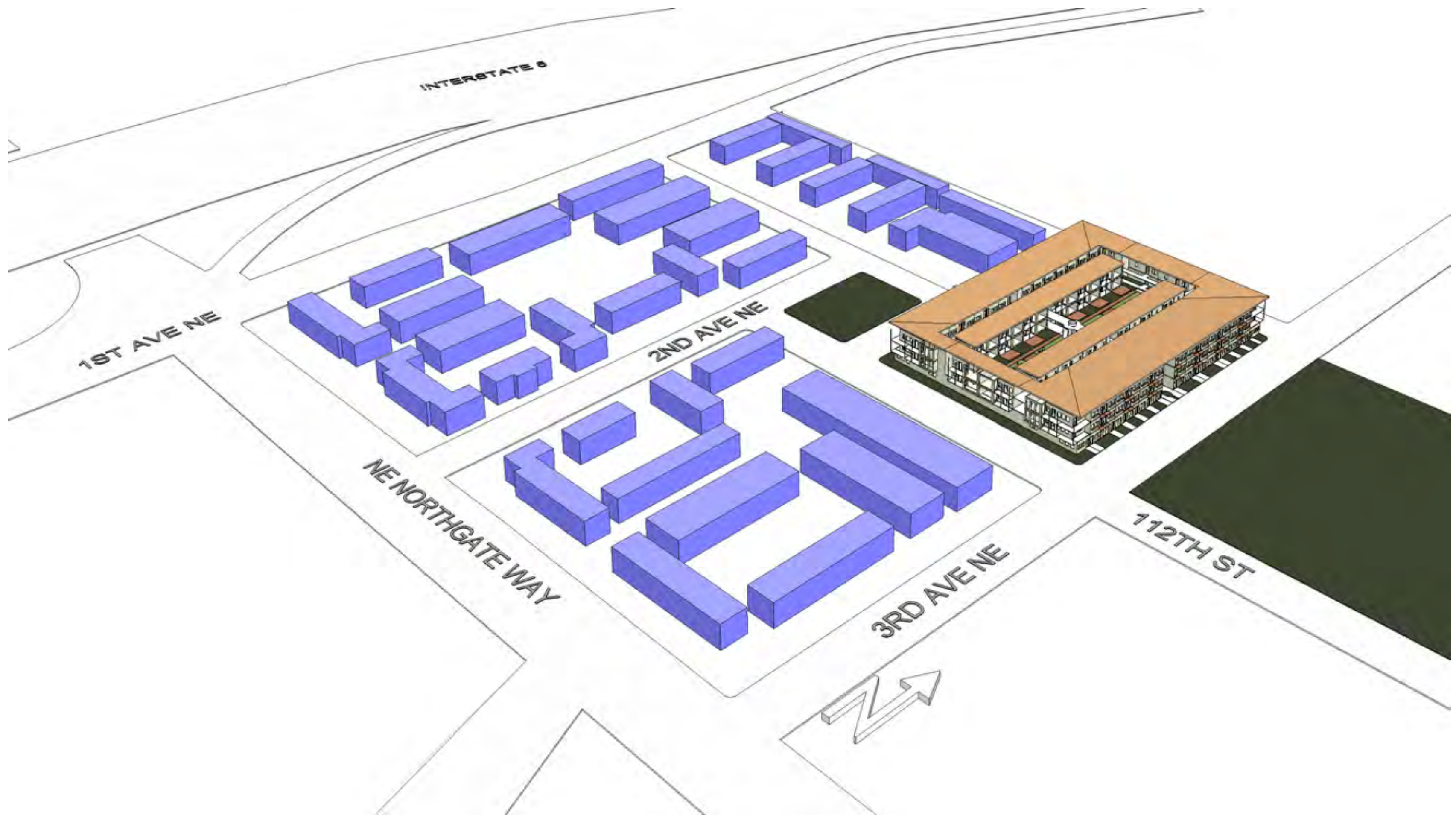
*Phase One*

The northeast corner of the site is directly across 3rd Ave from the new Northgate Urban Center Park that will open in 2010. Special care was given to this corner of the project to maximize the proximity of the park and to provide a direct pedestrian path from the park to The Blocks' village green. This "ribbon of green" ties the village green to the new neighborhood park and provides the development with a critical amenity that will be attractive to future residents. For that reason, and because this phase removes the smallest number of existing units, this portion of the site is also the first phase to be redeveloped.

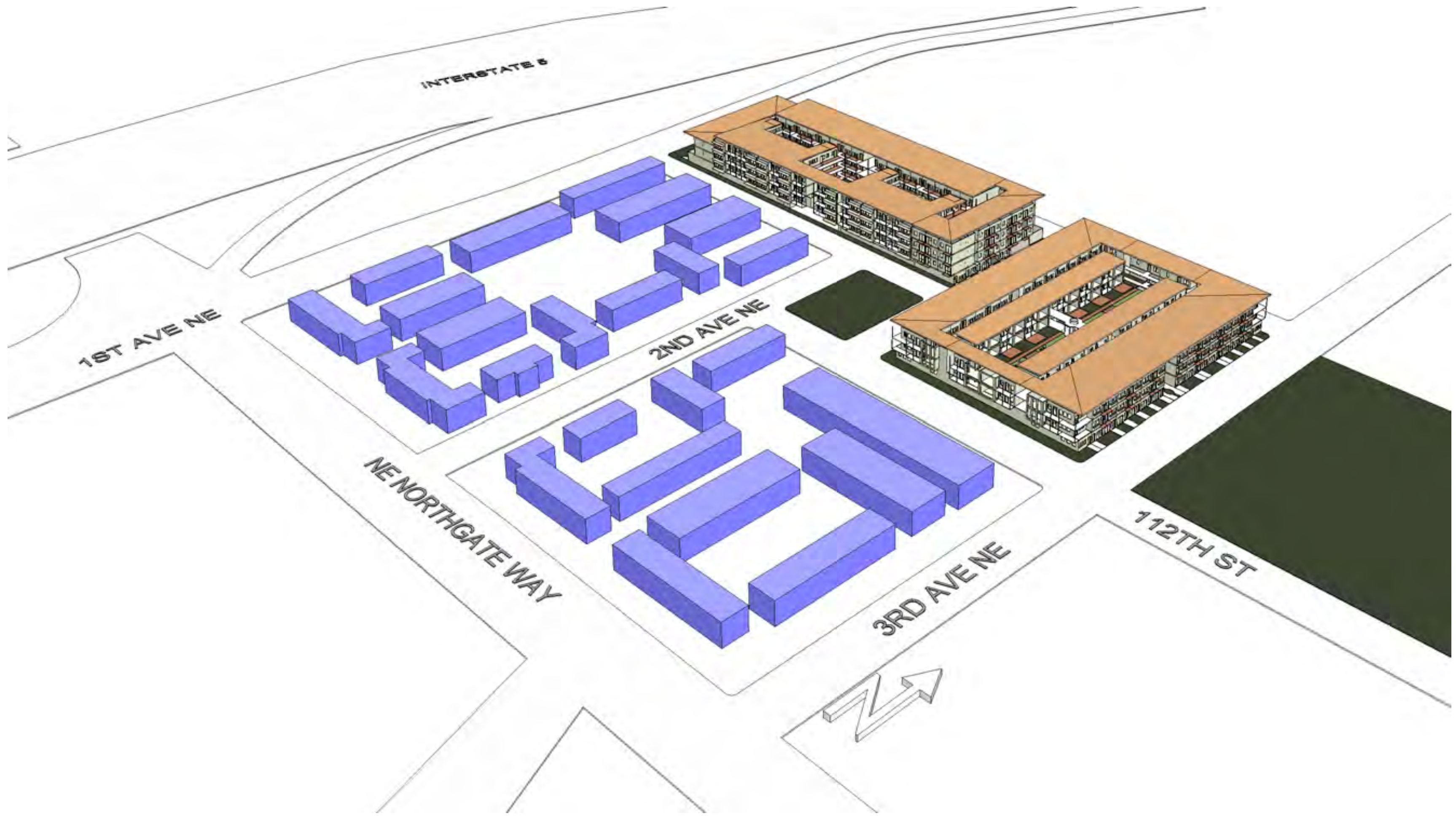
Phase One will contain 120 units in 2 stories over a parking podium that contains 89 parking spaces. Most units are above the parking level with the exception of several walk-up units on the east, west and south sides of the building. These units look directly across the street at the neighborhood park and village green respectively. This first phase will also include the construction of the northern half of the village green and the portion of 112th Street NE from 3rd Ave to the village green.



## *Phase Two*

The second phase of the project is the building directly west of Phase One on the northern portion of the site. The reason that this building should be built second is that it preserves most of the Northgate Apartment units and does not require the relocation of the existing 112th Street, thereby minimizing disruption to the existing units. It also carries through the residential character of the apartment project to the north, permits the alley to continue through the site and reinforces Phase One.

Phase Two will contain 168 units in 2 stories over a parking podium that contains 112 parking spaces. As with Phase One, most units are above the parking level with the exception of walk-up units on the south sides of the building adjacent to the village green. Behind the buildings in phases one and two is a parking and service alley that runs the entire length of the site and provides a buffer between The Blocks at Northgate development and the multi-family housing to the north.



THE BLOCKS AT NORTHGATE

## *Phase Three*

This phase of the project redevelops the highly visible southeast corner of the site at the intersection of Northgate Way and 3rd Ave NE. It is the phase that includes all 5,400 SF of the development's ground-floor commercial space. With the exception of the ground-floor retail, the building in many ways is identical Phase One in massing and layout. Phase three will also be 2 stories of 119 units and will include only 89 parking spaces in the first-floor podium since much of the ground floor space on the south end of the building is taken up by the commercial space.

Constructing Phase Three will require the relocation of 2nd Ave NE to the east. The new street alignment will be built as part of phase three and when complete the old alignment can be vacated. Phase three also includes construction of the southern half of the village green. At this point, the new 2nd Ave will run from Northgate Way all the way north to the alley.

## *Phase Four*

The fourth phase is the most visible site at the southwest corner of the site at the intersection of Northgate Way and 1st Ave NE that serves as the frontage road for northbound traffic to the I-5 on-ramp. The Blocks' development program envisions 168 units in 3-4 stories of apartments on this site over 112 parking spaces. However, the development team has the flexibility to adjust the program based on market changes. This site would also serve as an ideal location for a medium-sized all-suites hotel with approximately 150 rooms. Either option will work from a parking perspective as both have a 1:1 parking ratio. We have designed Phase Four with smaller units that work equally well for apartments or a residential hotel. This is a lower-risk strategy that gives us the option to convert in later phases should market demand significantly improve.

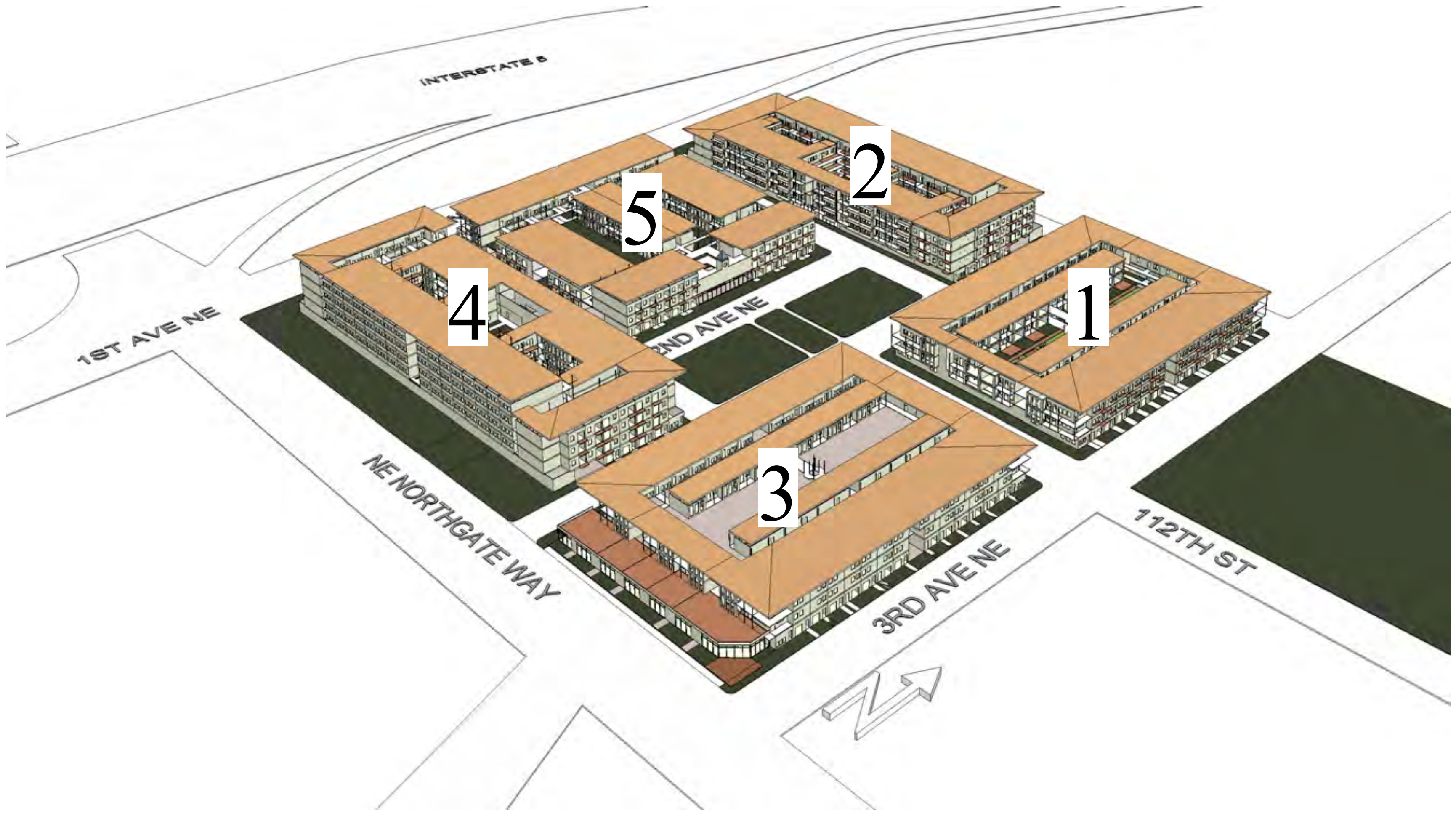
The other major consideration for planning a hotel on this site is that it would require a rezoning of the site or a conditional use permit. From a financing and insurance perspective, a conditional use permit is much less desirable since the City will not guarantee that the use could continue in the case of a catastrophe that destroys or severely damages the original structure. Conversely, a rezone would require a discretionary land use process with the City and may result in a significant exaction for off-site improvements such as the $2.4 million cost of making pedestrian enhancements to the 3rd Ave NE and Northgate Way intersection.

Phase Four also includes the construction of the eastbound road just north of the building. This road will provide the Phase Four building with access from both 1st and 3rd Avenues.

THE BLOCKS AT NORTHGATE

*Phase Five*

The final phase of the project is building five, located directly west of the village green. This building consists of 108 units in 2-3 stories of apartments over 112 parking spaces. The building has several walk-up ground floor units on the east side of the building directly across from the village green. When building five is complete, the village green will be surrounded on all four sides with ground-level apartment units facing the green, which will enliven the space and provide "eye on the streets" security.



## *Village Green and Private Courtyards*

The Blocks at Northgate includes a balance of public and private open space throughout the site. The village green will provide the main public gathering space in the development and will be designed to appeal the young and mostly childless residents. Since the city park across 3rd Ave will include many amenities such as a water feature, playground, and skate park, the design of The Blocks' village green will be more passive with extensive landscaping and seating areas. The green will include a mix of conifers and deciduous trees in order to soften the development and provide a green element throughout the year.

In addition to the village green, the wide sidewalks along Northgate Way and 3rd Ave NE will provide additional public spaces that deserve thoughtful design treatments. The sidewalk area in front of the commercial space in Phase Three will be wide enough to accommodate outdoor seating if a cafe or coffee shop leases the space. Further, the 3rd Ave edge of the property will receive extra amenities due to its designation as a Green Street and will include street trees, lighting, and a landscaped bio-swale to capture stormwater runoff.

In order to make the project more urban in character, all streets will be lined with street trees and parallel on-street parking is provided.

Private open space is provided within each block of apartments in the form of intimate private courtyards. The courtyards are accessible for the residents of that building only and sit on the roof of the parking structure below.

*View Fom the Courtyard; Phase One*

*View of Village Green at Full Build Out*

## Development Program

The following table summarizes The Blocks at Northgate development program.

| The Blocks Development Program | | | | | |
|---|---|---|---|---|---|
| | Apartments Units | Commercial Space | Village Green | Off-Street Parking | On-Street Parking |
| Phase 1 | 120 | 0 | 7000 sf | 89 | 41 |
| Phase 2 | 168 | 0 | 0 | 112 | 47 |
| Phase 3 | 119 | 5,400 sf | 9000 sf | 89 | 33 |
| Phase 4 | 168 | 0 | 0 | 112 | 20 |
| Phase 5 | 108 | 0 | 0 | 112 | 22 |
| **Total** | **683** | **5,400 sf** | **16,500 sf** | **514** | **163** |

### *Apartments*

The marketing data suggests that the demand is highest for studio and one-bedroom units since few children live in the area and most residents will be single or couples who occupy the same bedroom. While the development program includes only studios and one-bedroom units, our site plan offers the flexibility to add larger units in future phases if the market changes as we develop.

The following table summarizes the unit mix, size and rental rates for the apartments. Approximately 40% of the total units are studios and 60% are one-bedroom units, with various styles and layouts distinguishing each of the six unit types. Our economic model assumes a 5% vacancy rate at stabilization and an annual 2% increase in rental rates.

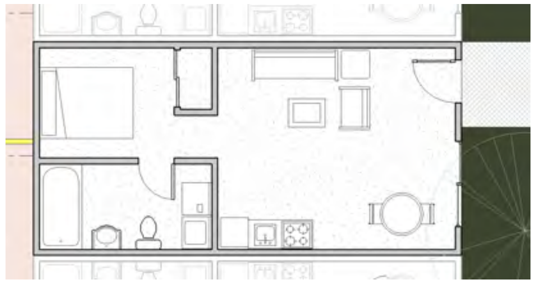
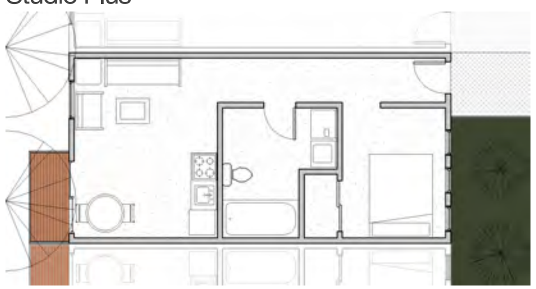
| The Blocks Projected Rents | | | | | | |
|---|---|---|---|---|---|---|
| | Unit Size (sf) | Total Units | Total Gross SF | Average Rent | Percent of total units | Rent Per SF |
| Studio | 450 | 100 | 45,000 | $905 | 15 | $2.01 |
| Studio Plus | 475 | 176 | 83,600 | $1,045 | 25.7 | $2.10 |
| One Bedroom | 525 | 176 | 92,400 | $1,115 | 25.7 | $1.99 |
| One Bedroom Suite | 625 | 53 | 33,125 | $1,195 | 7.9 | $1.78 |
| One Bedroom Deluxe Suite | 675 | 162 | 109,350 | $1,250 | 23.7 | $1.77 |
| One Bedroom Walk-Up Suite | 700 | 16 | 11,200 | $1,250 | 2.4 | $1.76 |
| **Total** | **549** | **683** | **374,675** | **$1,078** | **100** | **$1.90** |

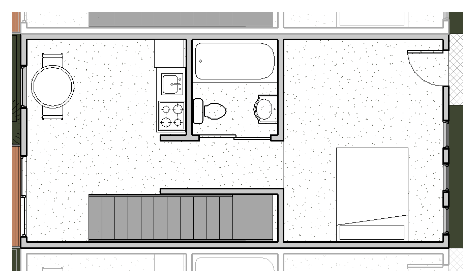
*does not include commercial space or common areas.

All units have a kitchen, full bath and washer/dryers. All units have space outside the unit in the form of a garden if situated on the ground floor and a balcony on upper floors. Unico modular units provide flexibility for each building to vary in a scale and size that reflects the market feasibility and/or design goals. The units differ in size and layout according to the unit mix of each building.

THE BLOCKS AT NORTHGATE


*Site Plan at Level Two Shows Unit Layout*

| Unit Type | Description |
|---|---|
| Studio  | - 450 sq ft studio<br>- Sleeping area is arranged in a way that gives the unit the feel of a one bedroom but still retains the open feeling of a studio<br>- Upper level units have a small balcony facing the village green |
| Studio Plus  | - 475 sq ft studio<br>- Units face inward to the courtyard and has a balcony located in the bedroom area<br>- The bathroom and kitchen form a block in the middle of the unit separating the living area from the sleeping area |
| One Bedroom  | - 525 sq ft one bedroom<br>- The bedroom and bathroom are set next to each other creating a hallway leading to the living room and the kitchen<br>- Most units have a small balcony<br>- The bathroom and a built-in closet separate the living room from the bedroom |

| Unit Type | Description |
|---|---|
| One Bedroom Suite  | - 625 sq ft one bedroom<br>- Units feature a long wall of windows and a private entrance<br>- Units are divided into two sections, creating a large living area and a bedroom |
| One Bedroom Deluxe Suite  | - 675 sq ft one bedroom<br>- Front door is located in the living room and the kitchen, which are in the middle of the unit<br>- Units have windows over the length of the unit and a view on the courtyard |
| One Bedroom Walk-Up Suite  | - 700 sq ft walk-up with front door on ground level<br>- Staircase up leads to kitchen<br>- The kitchen and the bedroom are separated by the bathroom<br>- In the bedroom there is an additional entrance, giving access to the gallery on the second floor |

## Affordability

The Blocks at Northgate will provide affordable housing to the Northgate community. The generally accepted definition of affordability is that a household does not need to spend more than 30% of its income on housing. According to 2008 HUD published income limits for King County, the area median income (AMI) is $57,000 for a one-person household and $65,100 for a two-person household. The Blocks will target households making 80% percent of the AMI (households with an annual income of $45,600-$52,080). Fifty units will be targeted to households earning 60% of the AMI ($34,200-$39,060).

The table below reflects the monthly rent limits for households earning 60%-80% of the AMI as calculated at 30% of household income.

| Rent Limits for 2008 by Unit Type | | | | | |
|---|---|---|---|---|---|
| | 60% AMI | 65% AMI | 70% AMI | 75% AMI | 80% AMI |
| Studio | $885 | $926 | $997 | $1,068 | $1,140 |
| Studio Plus | $976 | $1,057 | $1,139 | $1,220 | $1,302 |

Based On HUD Published Very Low Income Limit

The proposed rents at The Blocks are below these rent limits. The unit rents at 60% AMI are $800 for a studio unit and $915 for a one-bedroom unit. The maximum unit rent at 80% AMI or less is $1,045 for a studio and $1,250 for a one-bedroom unit.

By restricting the unit rents to 80% or less of the area median income, The Blocks will be able to participated in the Seattle Homes Within Reach property tax abatement program since the subject site is located within one of the 39 Homes Within Reach Target Areas. The tax abatement term is 12 years as long as the property remains in compliance with the affordability requirements. It is contemplated that the property would be able to renew the tax abatement at the end of the 12-year term in order to keep the development affordable.

Even more important, by keeping all our rents below 80% of AMI, we qualify for HUD 221(d)(4) financing, which insures non-recourse multi-family mortgage loans for up to 40-year terms for up to 90% of cost. In addition, the program provides that the construction loan converts into a 40-year, fully amortizing loan. The advantages are the lowest rents to the tenants and the lowest risk for the developer through the lowest equity required, the shortest absorption periods and the least personal risk.

### Commercial Space

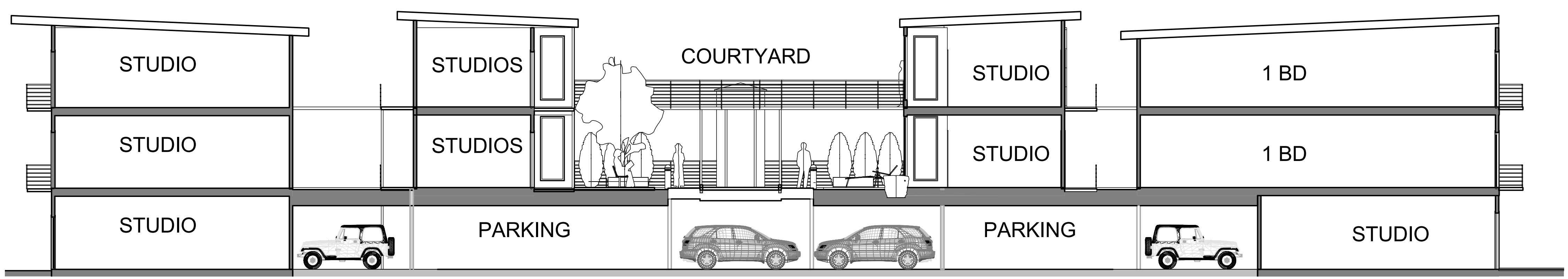
Building three includes 5,400 SF of leasable commercial space fronting on Northgate Way. Commercial uses are allowed in a Midrise Residential zone as of right as long as no single establishment exceeds 4,000 SF. The space is well suited for smaller tenants that provide services for apartment residents or which complement Target. Parking for the retail space will be located on-street immediately west of the building on the new 2nd Ave NE. The parking spaces closest to Northgate Way should be short-term spaces managed for the use of the retailers so long-term visitors or residents do not take them. The commercial space will be managed by the same management company that is managing the apartments.

## *Parking by Phase*

Each development phase supplies approximately a 1:1 parking ratio for its respective unit count. The majority of parking stalls are located in tuck-under parking (514 spaces) on the ground floor level of each building. The ground floor units and retail will screen most of the surface parking and landscape screening will be used to obscure the parking in other areas. Approximately 163 parking spaces are located on the street. Elevators and staircases in the parking structure are accessed in the main lobby of each building.

The project assumes on-street parking stalls will be shared between commercial and residential users. The tuck under parking stalls are reserved for the residential tenants of the respective building available through a monthly lease of $95. Any commercial use on the ground floor shall use the on-street parking for customers and clients with retail tenants able to access up to 4 spaces per 1,000 rentable square feet with stipulated commercial hours.

| Parking By Phase | | | | |
|---|---|---|---|---|
| | Units | Off-Street Parking | On Street Parking | Total Parking |
| Phase 1 | 120 | 89 | 41 | 130 |
| Phase 2 | 168 | 112 | 47 | 159 |
| Phase 3 | 119 | 89 | 33 | 122 |
| Phase 4 | 168 | 112 | 20 | 132 |
| Phase 5 | 108 | 112 | 22 | 134 |
| **Total** | **683** | **514** | **163** | **677** |




*Typical Building Section with Tuck Under Parking*

## Deal Structure

### *Joint Venture with Ground Lease*

Pordeco LLC proposes a participating ground lease/joint venture with the Mullally family that owns the land and will enter into a long-term ground lease and the Mullally Development Company (MDC), which will receive a management fee to manage the development. In addition, the Mullally family will receive income and equity kickers based on the development's performance and value.

The proposed ground lease for the The Blocks is a triple net lease. The project's financing requires the ground lease to be 10 years beyond the term of the mortgage term. Since the proposed mortgage term is 40 years, the ground lease term would be a minimum of 50 years. Our calculations assume the ground lease payment would be a fixed payment of $20 per square foot of land, increasing annually at the rate of Consumer Price Index (assuming 3.0%). The $20 per square foot equates to a land value of $7.3M for the 8.4-acre parcel, which is $35,000 per unit, a reasonable price for an affordable housing project. The equity and income kickers provide additional value to the landowners that compensates them, without assuming any risk, for future value increases and changes in the development plan in later phases. The proposed ground lease payment is a function of the development program that is financially feasible to build on the Northgate site, which is 683 apartment units and 5,400 SF of commercial space.

With an 8% return to the owner, the ground lease payment would be $20 SF. The cumulative annual ground lease at full build out would be $622,219. The ground lease payments would correspond to development phasing. In addition, the Mullaly family would continue to receive cash flow from all the units that remain in areas allocated for future phases.

In exchange for accepting a base ground rent based on current use value, the Mullally family would receive additional participations that provide equity returns through income and equity kickers. The income kicker would be a share of the project's net cash flow. Any net cash flow in excess of a preferred return to the equity investors who provide cash for development would be split between the Mullallys and the equity investors. For example, after a preferred return of 15% on the cash equity contributed by equity investors, any additional net cash flow could be prorated as negotiated, our projections assume a 15% cash distribution to the ground owner. The equity kicker could be a share of the project's net proceeds upon re-financing or sale of the investment , which is assumed to be 10% to the ground owner in our projections. Under this structure, the Mullally family would benefit from rental increases and increases to the land value.

This participating ground lease joint venture proposal limits the risk of the Mullally family while fairly compensating them for the value of the land and their role managing the development.

- Ground rents would ensure a steady and increasing stream of income.
- The Mullally family would need to provide no cash to make the development occur.
- The development would increase the value of the land for the Mullally family without incurring the development, construction, financing or market risk.
- The Mullally family would retain ownership of the land, participating in its future increase in value.
- The property tax liability would be passed from the Mullally family to the developer, Pordeco LLC and its cash equity investors.
- MDC would expand its property management business and will receive management fees.

- The proficiency of the Mullally family as managers gives them additional profit sharing with no cash expenditures while creating an added incentive to increase the profitability of the joint venture.

- Existing apartments with significant deferred maintenance would be replaced with new and attractive units, thereby ensuring long-term security of the site's value.

*"The Blocks at Northgate will require only $6.9 million in total equity. $1.1 million in the first phase and no more than $1.7 million in subsequent phases"*

**THE BLOCKS 15 YEAR PROFORMA**

| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assumptions | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| Annual Potential Gross Rent | 2% | | 1,432,577 | 3,531,210 | 5,111,478 | 7,518,008 | 9,100,945 | 9,282,964 | 9,468,624 | 9,657,996 | 9,851,156 | 10,048,179 | 10,249,143 | 10,454,125 | 10,663,208 | 10,876,472 | 11,094,002 | 11,315,882 |
| Other Income $85/unit/mo | 2% | | 111,401 | 280,191 | 406,136 | 584,152 | 707,236 | 721,381 | 735,809 | 750,525 | 765,535 | 780,846 | 796,463 | 812,392 | 828,640 | 845,213 | 862,117 | 879,360 |
| Parking Income $95/unit/mo | 2% | | 117,590 | 295,758 | 428,699 | 616,605 | 746,527 | 761,458 | 776,687 | 792,221 | 808,065 | 824,227 | 840,711 | 857,525 | 874,676 | 892,169 | 910,013 | 928,213 |
| **Potential Gross Income** | | | 1,661,569 | 4,107,159 | 5,946,313 | 8,718,765 | 10,554,709 | 10,765,803 | 10,981,119 | 11,200,742 | 11,424,757 | 11,653,252 | 11,886,317 | 12,124,043 | 12,366,524 | 12,613,854 | 12,866,132 | 13,123,454 |
| Vacancy | -5% | | (83,078) | (205,358) | (297,316) | (435,938) | (527,735) | (538,290) | (549,056) | (560,037) | (571,238) | (582,663) | (594,316) | (606,202) | (618,326) | (630,693) | (643,307) | (656,173) |
| **Effective Gross Income** | | | 1,578,491 | 3,901,801 | 5,648,997 | 8,282,827 | 10,026,974 | 10,227,513 | 10,432,063 | 10,640,705 | 10,853,519 | 11,070,589 | 11,292,001 | 11,517,841 | 11,748,198 | 11,983,162 | 12,222,825 | 12,467,281 |
| Expenses @ $4,300/unit | 3% | | (522,686) | (1,282,439) | (1,863,775) | (2,709,074) | (3,313,032) | (3,412,423) | (3,514,796) | (3,620,240) | (3,728,847) | (3,840,712) | (3,955,934) | (4,074,612) | (4,196,850) | (4,322,756) | (4,452,438) | (4,586,012) |
| **Apartment NOI** | | | 1,055,804 | 2,619,362 | 3,785,223 | 5,573,753 | 6,713,941 | 6,815,090 | 6,917,267 | 7,020,465 | 7,124,672 | 7,229,877 | 7,336,067 | 7,443,229 | 7,551,348 | 7,660,406 | 7,770,387 | 7,881,270 |
| | | | | | | | | | | | | | | | | | | |
| Retail Tenant | | | - | - | | - | - | | | | | | | | | | | |
| **Retail Potential Gross Income** | 2% | | - | - | 189,000 | 192,780 | 196,636 | 200,568 | 204,580 | 208,671 | 212,845 | 217,102 | 221,444 | 225,872 | 230,390 | 234,998 | 239,698 | 244,492 |
| Vacancy | -7% | | - | - | (13,230) | (13,495) | (13,764) | (14,040) | (14,321) | (14,607) | (14,899) | (15,197) | (15,501) | (15,811) | (16,127) | (16,450) | (16,779) | (17,114) |
| **Effective Gross Income** | | | - | - | 175,770 | 179,285 | 182,871 | 186,529 | 190,259 | 194,064 | 197,946 | 201,904 | 205,943 | 210,061 | 214,263 | 218,548 | 222,919 | 227,377 |
| Expenses | 3% | | - | - | (32,400) | (33,372) | (34,373) | (35,404) | (36,466) | (37,560) | (38,687) | (39,848) | (41,043) | (42,275) | (43,543) | (44,849) | (46,195) | (47,580) |
| **Retail NOI** | | | - | - | 143,370 | 145,913 | 148,498 | 151,124 | 153,793 | 156,504 | 159,258 | 162,057 | 164,899 | 167,787 | 170,720 | 173,699 | 176,724 | 179,797 |
| **Total Combined NOI** | | | 1,055,804 | 2,619,362 | 3,928,593 | 5,719,666 | 6,862,439 | 6,966,214 | 7,071,060 | 7,176,969 | 7,283,930 | 7,391,933 | 7,500,966 | 7,611,016 | 7,722,067 | 7,834,105 | 7,947,111 | 8,061,067 |
| ***Hard Ground Rent @ 8% of $20 psf*** | 3% | | (140,591) | (254,739) | (401,435) | (522,744) | (679,018) | (699,388) | (720,370) | (741,981) | (764,241) | (787,168) | (810,783) | (835,106) | (860,159) | (885,964) | (912,543) | (939,919) |
| **NOI Net of Ground Rent** | | | 915,213 | 2,364,623 | 3,527,157 | 5,196,922 | 6,183,421 | 6,266,826 | 6,350,690 | 6,434,987 | 6,519,689 | 6,604,765 | 6,690,183 | 6,775,910 | 6,861,908 | 6,948,140 | 7,034,568 | 7,121,147 |
| Annual Debt Service | | | (748,861) | (1,898,640) | (2,700,190) | (3,900,607) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) |
| **Annual Cash Flow** | | | 166,352 | 465,984 | 826,967 | 1,296,315 | 1,533,954 | 1,617,358 | 1,701,222 | 1,785,520 | 1,870,222 | 1,955,298 | 2,040,716 | 2,126,442 | 2,212,440 | 2,298,673 | 2,385,100 | 2,471,679 |
| **Cash Flow Distributions** | | | | | | | | | | | | | | | | | | |
| **Equity Investor Preferred Return** | 15% | | 24,953 | 69,898 | 124,045 | 194,447 | 230,093 | 242,604 | 255,183 | 267,828 | 280,533 | 293,295 | 306,107 | 318,966 | 331,866 | 344,801 | 357,765 | 370,752 |
| **Income Kicker to Land Owner** | 15% | | 24,953 | 69,898 | 124,045 | 194,447 | 230,093 | 242,604 | 255,183 | 267,828 | 280,533 | 293,295 | 306,107 | 318,966 | 331,866 | 344,801 | 357,765 | 370,752 |
| **Equity Investor** | 70% | | 116,447 | 371,133 | 677,969 | 1,076,915 | 1,278,908 | 1,349,801 | 1,421,086 | 1,492,739 | 1,564,736 | 1,637,050 | 1,709,656 | 1,782,523 | 1,855,621 | 1,928,919 | 2,002,382 | 2,075,975 |

## Economic Model

*Residential Assumptions:*

- Rental Rates: The average rental rate per square foot is $2.01 for a studio apartment and $1.83 for a one bedroom apartment. Please refer to the previous market conditions section for further discussion on the reasonability of these rents.

- Other Income: The other income line item, which includes application fees, late fees and forfeited deposits, is assumed to $85 per unit per year.

- Parking Income: The monthly parking rental rate will be $95 per month and the annual revenue from parking is based on a 0.90 parking ratio.

- Vacancy: Our projections assume a vacancy rate of 5%, which is reasonable given the average of 3% in the Northgate area and the affordability of the proposed unit rents.

- Operating Expenses: Operating expenses are estimated at $4,300 per unit, which includes $200 per unit for replacement reserves and assumes the property will qualify for a full tax abatement through the Seattle Homes Within Reach Program. According to 2008 data from the Institute of Real Estate Management, the average operating expenses per unit for a mid-rise elevator served building are $4,100 per unit net of Real Estate Taxes.

*Retail Assumptions*

- Rental Rates: The 5,400 of commercial space is projected to command rental income of $35 per square foot.

- Vacancy: Our projections assume a vacancy rate of 7% for the residential component of the development, which is equivalent to the average in the area.

- Operating Expenses: The retail leases will be triple net leases; therefore operating expenses to the owner are projected to be low and have been estimated at $6.00 per square foot per year.

*Financing Assumptions*

- Debt Financing:
  - HUD 221(d)(4) program: There are limited financing options due to the current market conditions and the credit crisis. Pordeco LLC has decided to finance the project with an FHA-approved lender in order to obtain a HUD insured mortgage under the 221(d)(4) program. The loan would be a construction loan that converts into a 40-year, fully amortizing loan term of 40 years with interest-only payments during construction.

  - Loan Sizing: The loan is sized at the lesser of 90% loan to cost or a 1.11 debt service coverage ratio. There is no "take out" of the construction loan; the debt remains the same size at permanent conversion. For Northgate, the 90% loan to value is the more restrictive requirement for all phases, which results in debt coverage of 1.22-1.41- (average of 1.31). The higher debt service coverage reduces risk to both the mortgage lender and the landowner, whose subordinated ground lease would be more protected. The cumulative debt would be $63M (90%) and the remaining equity investment required would be $7M (10%), which equals the Total Development Costs of $70M (100%)

  - Interest Rate: An interest quote of 6.75% (which includes a mortgage insurance premium of 0.45%) was provided by Capmark Financial as of March 2009). The financial projections estimate an interest rate increase of 10 basis points for each phase, with a 6.75% interest rate on the first phase, which increases to 7.05% for the fifth phase.

- Going in capitalization rate: A going in capitalization rate of 7% was assumed based on our conversations with local real estate brokers and developers.
- Going out capitalization rate: A capitalization rate of 10% was assumed to calculate the residual value of the property, which should be a very conservative estimate.

## *Capital Budget*

- Hard Costs: With guidance from an experienced local developer and contractor, hard costs are estimated at $168 per square foot. Construction costs have decreased significantly due to the weak state of the economy. General contractors are bidding projects at near cost in order to keep their workforces employed. A well-known Seattle developer we spoke with reported a cost savings of 17% on a recent bid over a prior bid on the same project two years ago. Our projections assume a cost savings on the previously stated cost of $168 per square foot of 12% in year 1, 10% in year 2, 8% in year 3, 6% in year 4 and 4% in year 5. We believe that a strong developer would be able to negotiate these cost savings.
- Soft Costs: Soft costs are estimated at 19% of hard costs or $11 million. This amount includes architect fees of $2.8 million, an interest reserve of $3.6 million and a developer fee of $2.25 million.
- Working Capital: $1.7 million is budgeted for working capital, which is comprised of architects fees, feasibility reports, attorney fees, accounting fees and developer overhead. The working capital budget is in Appendix A.

## *Pordeco LLC Returns*

- Return on Cost: The estimated return on cost is 8.7%, based on Net Operating Income (net of the ground lease payment) of $6.1 million over Total Development Costs of $70 million.
- Return on Equity: The projected return on equity is 20.6% based on Annual Cash Flow of $1.4 million over an equity investment of $7 million.
- IRR: The equity investor IRR is projected to be 24% (see calculation in appendix B), which is calculated based on the following assumptions:
  - 15 year cash flow calculations with a sale at the beginning of the 16th year
  - The residual value calculated based on a 10% capitalization rate
  - The equity investor will receive 90% of the residual value after the repayment of debt
- NPV: At a discount rate of 8%, the NPV is estimated to be $9.8M. As an analysis, the Net Present Value of the investment was determined utilizing several discount rates (see calculation in appendix B). As evidenced by the IRR calculation, the discount rate would have to reach 24% before the NPV of the investment would reach zero.

| Discount Rate | NPV ($) |
|---|---|
| 6% | 13.3. |
| 7% | 11.4 |
| 8% | 9.8 |
| 9% | 8.4 |
| 10% | 7.1 |

Based on these returns, Pordeco LLC would use its own equity for the project and believes these returns are also high enough to attract outside equity investors if necessary. However, it should be noted that these returns are contingent on the developer's ability to negotiate a variety of terms to make the project successful, such as the ground rent of $20 per square foot, the hard cost savings from the contractor and the property tax abatement.

## *Mullally Family Returns*

- Cash Flow Comparison: The table below compares the annual cash flow of the existing Northgate to the projected cash flow of The Blocks. The cash flow of the existing units below is overstated since the RFP only provides the annual NOI. The cash flow to Mullally family generated with the joint venture would be comprised of income from the existing units during construction, the annual ground rent, the income kicker of 15% of cash flow after a 15% preferred return to the cash equity investors, an annual management fee of 4% and an equity kicker of 10%. As shown in the chart below the annual cash flow in year 15 would be $1.7M, which is significantly higher than the current annual cash flow of under $500K.

- IRR: The Mulally's return is projected to be 9.6% (see calculation in appendix C), which is calculated based on the following assumptions:
  - An initial investment of the land valued at $7.3 ($20 psf)
  - Income from existing units during construction
  - 15 year cash flow calculations with a sale at the beginning of the 16th year
  - Income kicker of 15% of cash flow after a 15% preferred return to the cash equity investors
  - The residual value calculated based on a 10% capitalization rate
  - Equity kicker of 10% of the residual value after the repayment of all debt.

- NPV: At a discount rate of 7%, the NPV is estimated to be $1.6M. The discount rate utilized for the return to the landowner should be lower than that assumed for the developer since the risk of the investment is much lower. As an analysis, the Net Present Value of the investment was determined utilizing several discount rates (see calculation in appendix B).

| Discount Rate | NPV ($) |
|---|---|
| 6% | 2.3M |
| 7% | 1.5M |
| 8% | 912K |

- As evidenced by the IRR calculation, the discount rate would have to reach 9.6% before the NPV of the investment would reach zero. The Mulally's would benefit from participation in The Blocks development based on the estimated return of 10% without any equity contribution and the opportunity to triple its cash flow from the site.

**Ground Owner Chash Flow Comparison**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash Flow-Existing Units** | | | | | | | | | | | | | | | | | |
| **Existing Units** | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| **Proposed Cash Flow** | | | | | | | | | | | | | | | | | |
| **Existing Units** | 403,500 | 345,500 | 217,500 | 111,00 | | | | | | | | | | | | | |
| **Ground Rent** | | 140,591 | 254,739 | 401,435 | 522,744 | 679,018 | 699,388 | 720,370 | 741,981 | 764,241 | 787,168 | 810,783 | 835,106 | 860,159 | 885,964 | 912,543 | |
| **Income Kicker** | | 24,953 | 69,898 | 120,045 | 194,447 | 230,093 | 242,604 | 255,183 | 267,828 | 280,533 | 293,295 | 306,107 | 318,966 | 331,866 | 344,801 | 357,765 | |
| **Management Fee (4% EGI)** | | 63,140 | 156,072 | 232,991 | 338,484 | 408,394 | 416,562 | 424,893 | 433,391 | 442,059 | 450,900 | 459,900 | 459,918 | 469,116 | 478,498 | 497,830 | |
| **Equity Kicker** | | | | | | | | | | | | | | | | | 1,714,568 |
| Total Cash Flow Propsed | 403,500 | 574,184 | 698,209 | 754,471 | 1,055,675 | 1,317,505 | 1,358,554 | 1,400,446 | 1,443,200 | 1,486,833 | 1,531,363 | 1,576,790 | 1,613,990 | 1,661,141 | 1,709,263 | 1,768,138 | 1,714,568 |

## Project Construction

### *Site Preparation*

Several site conditions shaped the development program and design:

- The project site has low soil bearing pressure due to sand, clay, and gravel glacial formations, as well as fill material put in place in the 1950s for construction of the existing apartments. These low soil-bearing pressures limit construction options.

- To build a large building or a very tall structure, the structure would need to be built on pilings. Pilings are very expensive and could easily double the cost of the foundation. Construction on pilings is only supported by higher rent development

- High groundwater conditions exist on site (12-15 feet below the surface). To build deep, that is, below water level, the building would need structural anchoring (a "bathtub") or a dewatering system. In either case, construction below water level would be very expensive. This ruled out any parking more than one level below grade. This became a moot point as even one level of underground parking did not pencil out.

- The Seattle building code allows wood frame or steel stud construction up to 5 stories either directly on grade or above the 1-story below ground parking structure. This includes the option of using gypcrete slabs.

Pordeco LLC considered many configurations of these construction types in developing the program. Due to the low rents afforded by the market, the lowest construction cost that allows the highest density was needed to reduce the per-unit share of the ground lease. Modular or stick-frame construction wherever possible coupled with tuck-under at grade parking is the lowest cost option for construction of housing with acceptable density.

### *Unico Modular Construction*

The key to the success of The Blocks at Northgate is flexibility. With the current market downturn, the ability to accurately and quickly respond to changes in the market gives our project a strong competitive advantage. The Blocks achieves this not only through phased development, but also through reduced construction time made possible by using a prefabricated building system. We choose to use a prefabricated building system developed by Unico and constructed at a Transform LLC factory one-hour north in Burlington, WA.

Unico Properties has partnered with architects, engineers, contractors and a production facility to develop its product, a modular housing unit system called "Inhabit". The product is a single module dwelling unit designed to be stacked end-to-end or side-by-side, up to five stories in height, and in sizes of 450 SF (15'x30'), 675 SF (15'x45'), and 900 SF (30'x30') square feet. Each unit is built in the production facility north of Seattle. Before ever arriving at the project site, the walls, insulation, interior and exterior finishes, as well as the plumbing, mechanical, and electrical distribution and all appliances and cabinetry are all assembled inside the factory. The advantages of building housing in a factory are similar to the advantages of building anything else in a factory:

- Accuracy of automated processes.

- Control of construction methods.

- Control of construction materials to reduce waste and provide for greater ability to inspect and ensure products are as specified.

Example of Modular Housing Unit; Rainier Square, Seattle

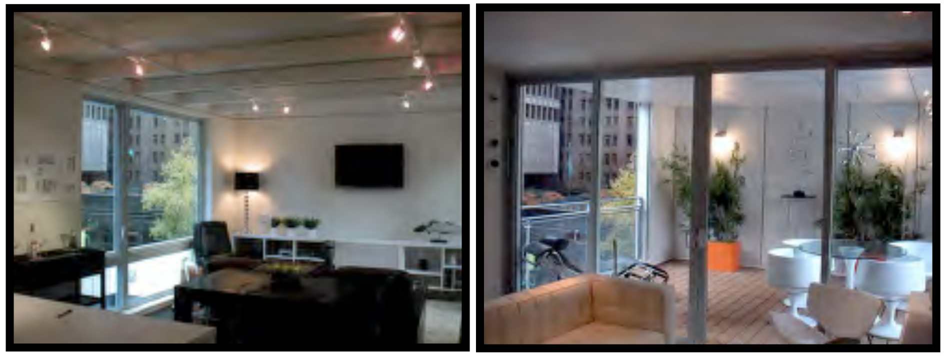
- No moisture related concerns associated with stick frame construction in rainy outdoor environments or weather delays.

- The permitting process is much easier for a pre-approved product as the state permit approval time is 6 days for Inhabit product vs. 150 days with the City of Seattle for typical custom construction

After completion and permit approval in the factory, the finished unit is trucked to the site, where it is placed as needed on the parking podium, tied into the rest of the structure, connected to the building's mechanical, pluming, and electrical distribution systems. Exterior sealing between units is completed and the project is ready for occupancy.

There are also benefits of using the Unico system on the jobsite related to the reduced site time required to complete the building. The foundation and infrastructure is built on site at the same time as the units are being constructed, saving months of time. Since almost all construction is done inside the factory, work related to the residential units on the project site is primarily unit placement. This reduction in site construction time has many benefits, including

- Lower impact on neighbors during construction, particularly important for ongoing rental operations at Northgate Apartments.



Interion View of Modular Housing Unit

- Reduced construction impacts on prior phases of The Blocks.

- Greater ability to deliver a housing product in a timely manner for a changing market.
- Fewer construction traffic problems as multiple deliveries of materials are reduced.

- Elimination of construction deterioration and vandalism during construction.

- Lower soft costs associated with long construction timelines.

- Lower financing costs associated with much shorter construction timelines.

- Higher quality control in factory conditions under continuous supervision.

- Faster permitting and inspection by the state Department of Labor & Industries right inside the plant.

- The prefabricated system's largest benefit to a project, however, is its impact on cash flow. With a reduction in site construction time of 6 months expected from using this method, we can use a shorter-term construction loan and reap the benefits of reduced financing costs and earlier income from the units.

### *Development Timeline*

The weak market, the large area of the site, and market absorption rates mean that a site fully built in the near future would not only fail to be absorbed quickly, but would also miss out on the opportunities presented by future economic recovery. To limit our absorption risk and to preserve opportunity to capitalize on future economic conditions, the project divided into five phases. Each of the phases is a stand-alone project that can be built without the others. If future market conditions permit, multiple phases can be built at the same time, lowering the costs associated with starting and stopping construction multiple times.

Using the prefabricated system, the typical 18-month construction timeframe is reduced by at least six months. The development timeline assumes that Phase One will break ground in the Spring of 2010 and receive occupancy permits 12 months later in Spring 2011. Thereafter, our economic model assumes a new phase being completed every 12 months. Under this scenario, the site would reach full build-out in the spring of 2015 (assuming that none of the phases are delayed or combined).

## Green Elements

Pordeco LLC proposes that The Blocks at Northgate be built with a rainwater collection and storage system to be used for site irrigation. This is an effective water conservation feature, without the need for an expensive treatment and distribution systems. Storage tanks in each courtyard provide irrigation for shrubs and planters, and for the village green area. Bioswales at sidewalks provide stormwater filtering and detention, as well as a landscaping element for the project.

The presence of high groundwater on site and nearby productive water wells in the area presents this project with a unique opportunity for investment in energy savings. The project includes a well water heat pump system, which provides heating cooling and water heating for energy performance more than 50% better than current code. Once a water right is obtained from the state, using the Hillis exemption, pairs of extraction and injection wells will be built on site to allow groundwater to be accessed as a source of heating and cooling. About 1,000 gallons per minute of total flow is expected to be required for the site. This well water is extracted from the groundwater aquifer, and can either be pumped directly to heat pumps in each unit. The well water is then re-injected at another location on the site. As such, the net water consumption on site for heating and cooling is zero. These systems are much less costly than a closed-loop ground source heat pump system and have a simple return on investment period of about 7 years due to reduced energy consumption. If procuring the water rights, well production, or construction cost of this system make it infeasible, in-wall air-to-air heat pumps will provide heating and cooling to each unit.

The Blocks will be certified by Built Green under their new multifamily housing program, and certified to their 4-star level. This green certification program is effective, comprehensive, and is far less costly than LEED.

All of the units are designed with windows on two sides, which has many advantages. First, it allows the apartments to be daylighted, which besides increasing development value, allows the lights to remain off during daylight hours, lowering energy costs. Second, it allows for cross ventilation in each unit, which reduces reliance on air conditioning systems in the summertime.

*Green Roofs and Bio-Swales are Two Examples of On -Site Stormwater Management*

## Project Marketing

The site will be branded with a focus on accessibility, affordability, and improvement of the existing stock of housing availability. The branding will highlight how the design drives efficient use of space, which keeps cost down for the consumer. Ultimately, the savings that are made on the development are passed on to the end-user with as little sacrifice to the quality or experience as possible.

### *Marketing & Leasing*

Stringent loan requirements have made home purchasing more difficult for borrowers. This phenomenon will help stabilize the apartment market even as it heads into a downturn. With vacancies expected to rise as the Northgate neighborhood grows, absorption should return to consistent levels as employment returns to the region. New inventory will flood the market in 2009, which should lead to negative absorption throughout the year. As new market-rate apartments become the predominant product in the Northgate area, affordable housing will be in increased demand. North Seattle should reach a consistent absorption of 2% of inventory by 2012. This rate of absorption should translate to about 40 units per month for the entire North Seattle area.

The current Northgate Apartment site offers an introduction for potential tenants into the new development. Based on the displacement of tenants from the old site, 10% of the new units should be able to be pre-leased to those displaced and soon to be displaced tenant pool. A new affordable Northgate development should capture a minimum of 30% of the absorption rate or 14 units per month.

Retail absorption in phase three should take no longer than about six months. Placement of the proper tenants could happen in pre-development in the third phase as the pricing is expected to be competitive for the area in order to command a solid long term lease. With rents placed at $38/SF for the new retail rents at The Blocks of $35/SF could be achievable with few concessions.

## Conclusions

The Northgate Apartments are a stable development with low vacancy and a reported NOI of approximately $500,000 annually with apparently modest debt. Why should the Mullally family enter into a participating ground lease and joint venture with Pordeco LLC and redevelop the site during the worst economic recession in at least 25 years? We believe there are many compelling reasons to support this proposal:

- Now is the perfect time to begin planning for the future. The recession has halted virtually all new residential and commercial development so the pipeline of new product is virtually dry. It may take 12 to 18 months to absorb the current real estate supply, but with so little new development being planned it makes strategic sense to position The Blocks at Northgate as the first development to open its doors as the market recovers.

- The strength of our proposal is that The Blocks at Northgate are designed to succeed even if the market remains weak. The site plan has been designed to maximize the flexibility and phasing of the development program while minimizing risk. If developed in five separate phases as proposed, at no point will more than 144 net units be put on the market (new units constructed minus older units demolished). This allows the development team to continually adjust the timing and product type of each subsequent phase based on the market receptivity of the proceeding phase.

- This proposal represents significant upside potential for the Mullally family with no out-of pocket cash equity contribution. The Mullallys wanted to retain ownership of the site and we accommodate this expectation. They will receive cash payments as ground rent for the use of their land and an additional income stream because their apartment management business, MDC, will be hired to manage and operate the new development. Further, the Mullally family will participate in the growth in both the income stream of cash flow and the value of the project because they will receive a 15% income kicker on net cash flow and a 10% equity kicker on net sales proceeds for their participation in the joint venture.

- The Blocks at Northgate will offer affordable rents compared with competing new construction in the general vicinity. We will redevelop the site at the current grade while tucking parking spaces beneath each building. This greatly reduces construction costs compared with underground or structured parking. The Unico modular units we have selected will also reduce construction costs and time. Both design choices allow us to maintain rental rates that are affordable to households that earn just 80% of area medium income.

- In addition to the low risk and reasonable returns to the landowners, our program represents low risk both to equity investors and the developer. By keeping our units affordable the project qualifies for HUD's 221(d)(4) program. This financing program is key to the viability of The Blocks since it provides non-recourse multi-family mortgage loans for up to 40-year terms for up to 90% of cost. This also lowers project risk by requiring much lower developer equity. The Block will require only $6.9 million in total equity. $1.1 million in the first phase and no more than $1.7 million in subsequent phases.

- The City of Seattle also benefits from the Blocks at Northgate. It gains 683 units of affordable workforce housing in an increasingly mixed-use area where it is investing large sums building an adjacent park. It gains new tax revenue. It gains a head start on transforming 3$^{rd}$ Avenue as a pedestrian oriented green street connected to the larger urbanizing area.

The Blocks are built sustainably to minimize energy usage and construction waste and responsibly treat on-site water runoff.

- Finally, the process through which Pordeco LLC developed the plan for the Blocks was logical and balanced. We analyzed the physical and fiscal capacity of the site to determine parking capacity. Parking and the market determined density. We divided the superblock into Blocks that maximized retention of existing units through logical phasing. We used construction techniques that maximize flexibility to alter the unit mix and price points to fit changing market demand. We devised a financing strategy that minimizes risks to all parties and ensures feasibility even in uncertain markets.

For these reasons and more, we believe that The Blocks at Northgate represents the most profitable and lowest risk redevelopment scenario for the site.

| Apartment Operating Proforma | Building 1: 120 units | | | |
|---|---|---|---|---|
| | UNITS | SQ FT | RENT | RENT PSF |
| Studio (60% AMI) | | | | |
| Studio (60% AMI) | | | | |
| 1bd (60% AMI) | | | | |
| Studio | 24 | 450 | 905 | 2.01 |
| Studio | 26 | 475 | 955 | 2.01 |
| Studio | 40 | 525 | 1,045 | 1.99 |
| 1bd | 27 | 625 | 1,115 | 1.78 |
| 1bd | 3 | 675 | 1,195 | 1.77 |
| 1bd | 0 | 700 | 1,250 | 1.79 |
| Totals | 120 | 63,050 | 122,034 | |
| | | | | |
| | | | PER YEAR | PUPY |
| Potential Gross Rent | | | 1,464,402 | 12,203 |
| Other Income $83/unit/mo | | | 116,640 | 972 |
| Parking Income $95/unit/mo | | | 123,120 | 1,140 |
| Potential Gross Income | | | 1,704,162 | 14,201 |
| Vacancy @ 5% | | -5% | (85,208) | (710) |
| Effective Gross Income | | | 1,618,954 | 13,491 |
| Expenses @ | | | (516,000) | (4,300) |
| Apartment NOI | | | 1,102,954 | 9,191 |
| Retail Operating Proforma | | | | |
| Retail Tenant | | | | |
| Potential Gross Income | | | | |
| Vacancy | | | | |
| Effective Gross Income | | | | |
| Retail Expenses | | | | |
| Retail NOI | | | | |
| Total Combined NOI | | | 1,102,954 | 9,191 |
| *Ground Rent @ 8% of $20psf* | | | (123,378) | (1,028) |
| NOI Net of Ground Rent | | | 979,576 | 8,163 |
| Annual Debt Service | | | (750,368) | (6,253) |
| Annual Cash Flow | | | 229,208 | 1,910 |
| Est. Cap Rate and Value | | 7% | 13,993,947 | 116,616 |
| | | PSF | TOTAL | PER UNIT |
| Hard Cost PSF | | 168 | 10,577,930 | 88,149 |
| Savings @ 12% | | (20) | (1,269,352) | (10,578) |
| Soft Cost PSF | | 35 | 2,206,750 | 18,390 |
| Total Development Cost (TDC) | | 183 | 11,515,328 | 95,961 |
| Profit/(Loss) | | | 2,478,619 | |
| Return on Cost = NOI / TDC | | | 8.5% | |
| Loan Analysis | | | | |
| Loan to Cost @ | | 90% | 10,363,796 | |
| Loan @ DSCR | | 1.11 | 12,115,362 | |
| | | Mo | Yr | |
| Interest Rate | | 0.563% | 6.75% | |
| Term | | 480 | 40 | |
| Amortization | | 480 | 40 | |
| Debt Payment | | $62,531 | $750,368 | |
| | | | | |
| Debt Service Coverage | | 1.31 | | |
| Mortgage Constant | | 7.28% | | |
| Debt | | | 10,363,796 | 90.0% |
| Equity | | | 1,151,533 | 10.0% |
| TDC | | | 11,515,328 | 100.0% |
| | | | | |
| ROE = CF/Equity | | | 19.9% | |

| Apartment Operating Proforma | Building 2: 168 units | | | |
|---|---|---|---|---|
| | UNITS | SQ FT | RENT | RENT PSF |
| Studio (60% AMI) | 18 | 450 | 800 | 1.78 |
| Studio (60% AMI) | 10 | 475 | 800 | 1.68 |
| 1bd (60% AMI) | 22 | 675 | 850 | 1.26 |
| Studio | 0 | 450 | 923 | 2.05 |
| Studio | 32 | 475 | 974 | 2.05 |
| Studio | 30 | 525 | 1,066 | 2.03 |
| 1bd | 0 | 625 | 1,137 | 1.82 |
| 1bd | 56 | 675 | 1,219 | 1.81 |
| 1bd | 0 | 700 | 1,275 | 1.82 |
| Totals | 168 | 96,450 | 172,498 | |
| | | | | |
| | | | PER YEAR | PUPY |
| Potential Gross Rent | | | 2,069,981 | 12,321 |
| Other Income $83/unit/mo | | | 166,562 | 991 |
| Parking Income $95/unit/mo | | | 175,815 | 1,163 |
| Potential Gross Income | | | 2,412,359 | 14,359 |
| Vacancy @ 5% | | -5% | (120,618) | (718) |
| Effective Gross Income | | | 2,291,741 | 13,641 |
| Expenses @ | | | (744,072) | (4,429) |
| Apartment NOI | | | 1,547,669 | 9,212 |
| Retail Operating Proforma | | | | |
| Retail Tenant | | | | |
| Potential Gross Income | | | | |
| Vacancy | | | | |
| Effective Gross Income | | | | |
| Retail Expenses | | | | |
| Retail NOI | | | | |
| Total Combined NOI | | | 1,547,669 | 9,212 |
| *Ground Rent @ 8% of $20psf* | | | (109,930) | (654) |
| NOI Net of Ground Rent | | | 1,437,739 | 8,558 |
| Annual Debt Service | | | (1,149,779) | (6,844) |
| Annual Cash Flow | | | 287,960 | 1,714 |
| Est. Cap Rate and Value | | | 20,539,126 | 122,257 |
| | | PSF | TOTAL | PER UNIT |
| Hard Cost PSF | | 162 | 15,622,992 | 92,994 |
| Savings @ 12% | Savings @ 10% | (16) | (1,562,299) | (9,299) |
| Soft Cost PSF | | 35 | 3,375,730 | 20,094 |
| Total Development Cost (TDC) | | 181 | 17,436,443 | 103,788 |
| Profit/(Loss) | Profit/(Loss) | | 3,102,683 | 18,468 |
| Return on Cost = NOI / TDC | | | 8.2% | |
| Loan Analysis | | | | |
| Loan to Cost @ | | 90% | 15,692,799 | |
| Loan @ DSCR | | 1.11 | 17,573,280 | |
| | | Mo | Yr | |
| Interest Rate | | 0.571% | 0.0685 | |
| Term | | 480 | 40 | |
| Amortization | | 480 | 40 | |
| Debt Payment | | $95,815 | $1,149,779 | |
| | | | | |
| Debt Service Coverage | | 1.25 | | |
| Mortgage Constant | | 7.37% | | |
| Debt | | | 15,692,799 | 90% |
| Equity | | | 1,743,644 | 10% |
| TDC | | | 17,436,443 | 100% |
| | | | | |
| ROE = CF/Equity | | | 16.5% | |

| Apartment Operating Proforma | Building 3: 119 | | | |
|---|---|---|---|---|
| | UNITS | SQ FT | RENT | RENT PSF |
| Studio (60% AMI) | | | | |
| Studio (60% AMI) | | | | |
| 1bd (60% AMI) | | | | |
| Studio | 24 | 450 | 942 | 2.09 |
| Studio | 26 | 475 | 993 | 2.09 |
| Studio | 40 | 525 | 1,087 | 2.07 |
| 1bd | 26 | 625 | 1,160 | 1.86 |
| 1bd | 3 | 675 | 1,243 | 1.84 |
| 1bd | 0 | 700 | 1,301 | 1.86 |
| Totals | 119 | 62,425 | 125,804 | |
| | | | | |
| | | | PER YEAR | PUPY |
| Potential Gross Rent | | | 1,509,643 | 12,686 |
| Other Income $83/unit/mo | | | 120,341 | 1,011 |
| Parking Income $95/unit/mo | | | 127,027 | 1,186 |
| Potential Gross Income | | | 1,757,011 | 14,765 |
| Vacancy @ 5% | | -5% | (87,851) | (738) |
| Effective Gross Income | | | 1,669,160 | 14,027 |
| Expenses @ | | | (542,863) | (4,562) |
| Apartment NOI | | | 1,126,298 | 9,465 |
| Retail Operating Proforma | | | | - |
| Retail Tenant | | 5,400 | 35 | 0 |
| Potential Gross Income | | | 189,000 | 1,588 |
| Vacancy | | -7% | (13,230) | (111) |
| Effective Gross Income | | | 175,770 | 1,477 |
| Retail Expenses | | (6.00) | (32,400) | (272) |
| Retail NOI | | | 143,370 | 1,205 |
| Total Combined NOI | | | 1,269,668 | 10,669 |
| *Ground Rent @ 8% of $20psf* | | | (139,054) | (1,169) |
| NOI Net of Ground Rent | | | 1,130,614 | 9,501 |
| Annual Debt Service | | | (801,550) | (6,736) |
| Annual Cash Flow | | | 329,063 | 2,765 |
| Est. Cap Rate and Value | | | 16,151,622 | |
| | | PSF | TOTAL | PER UNIT |
| Hard Cost PSF | | 168 | 10,477,480 | |
| Savings @ 12% | Savings @ 8% | (13) | (838,198) | |
| Soft Cost PSF | | 35 | 2,373,875 | |
| Total Development Cost (TDC) | | | 12,013,157 | |
| Profit/(Loss) | | | 4,138,465 | |
| Return on Cost = NOI / TDC | | | 9.4% | |
| Loan Analysis | | | | |
| Loan to Cost @ | | 90% | 10,811,841 | |
| Loan @ DSCR | | 1.11 | 13,658,511 | |
| | | Mo | Yr | |
| Interest Rate | | 0.579% | 0.0695 | |
| Term | | 480 | 40 | |
| Amortization | | 480 | 40 | |
| Debt Payment | | $66,796 | $801,550 | |
| | | | | |
| Debt Service Coverage | | 1.41 | | |
| Mortgage Constant | 7.46% | | | |
| Debt | | 10,811,841 | 90% | |
| Equity | | 1,201,316 | 10% | |
| TDC | | 12,013,157 | 100% | |
| | | | | |
| ROE = CF/Equity | | 27.4% | | |

| Apartment Operating Proforma | Building 4: 168 units | | | |
|---|---|---|---|---|
| | UNITS | SQ FT | RENT | RENT PSF |
| Studio (60% AMI) | | | | |
| Studio (60% AMI) | | | | |
| 1bd (60% AMI) | | | | |
| Studio | 18 | 450 | 960 | 2.13 |
| Studio | 42 | 475 | 1,013 | 2.13 |
| Studio | 30 | 525 | 1,109 | 2.11 |
| 1bd | 0 | 625 | 1,183 | 1.89 |
| 1bd | 78 | 675 | 1,268 | 1.88 |
| 1bd | 0 | 700 | 1,327 | 1.90 |
| Totals | 168 | 96,450 | 192,025 | |
| | | | | |
| | | | PER YEAR | PUPY |
| Potential Gross Rent | | | 2,304,301 | 13,716 |
| Other Income $83/unit/mo | | | 169,893 | 1,011 |
| Parking Income $95/unit/mo | | | 179,332 | 1,186 |
| Potential Gross Income | | | 2,653,526 | 15,795 |
| Vacancy @ 5% | | -5% | (132,676) | (790) |
| Effective Gross Income | | | 2,520,849 | 15,005 |
| Expenses @ | | | (789,386) | (4,699) |
| Apartment NOI | | | 1,731,463 | 10,306 |
| Retail Operating Proforma | | | | |
| Retail Tenant | | | | |
| Potential Gross Income | | | | |
| Vacancy | | | | |
| Effective Gross Income | | | | |
| Retail Expenses | | | | |
| Retail NOI | | | | |
| Total Combined NOI | | | 1,731,463 | 10,306 |
| *Ground Rent @ 8% of $20psf* | | | (109,266) | (650) |
| NOI Net of Ground Rent | | | 1,622,198 | 9,656 |
| Annual Debt Service | | | (1,200,417) | (7,145) |
| Annual Cash Flow | | | 421,781 | 2,511 |
| Est. Cap Rate and Value | | | 23,174,251 | 137,942 |
| | | PSF | TOTAL | PER UNIT |
| Hard Cost PSF | | 159 | 15,325,870 | 91,225 |
| Savings @ 12% | Savings @ 6% | (10) | (919,552) | (5,474) |
| Soft Cost PSF | | 35 | 3,375,750 | 20,094 |
| Total Development Cost (TDC) | | | 17,782,068 | 105,846 |
| Profit/(Loss) | Profit/(Loss) | | 5,392,183 | |
| Return on Cost = NOI / TDC | | | 9.1% | |
| Loan Analysis | | | | |
| Loan to Cost @ | | 90% | 16,003,861 | |
| Loan @ DSCR | | 1.11 | 19,370,931 | |
| | | Mo | Yr | |
| Interest Rate | | 0.588% | 7.05% | |
| Term | | 480 | 40 | |
| Amortization | | 480 | 40 | |
| Debt Payment | | $100,035 | $1,200,417 | |
| | | | | |
| Debt Service Coverage | | 1.35 | | |
| Mortgage Constant | 7.54% | | | |
| Debt | | | 16,003,861 | 90% |
| Equity | | | 1,778,207 | 10% |
| TDC | | | 17,782,068 | 100% |
| | | | | |
| ROE = CF/Equity | | | 23.7% | |

| Apartment Operating Proforma | Building 5: 108 units | | | |
|---|---|---|---|---|
| | UNITS | SQ FT | RENT | RENT PSF |
| Studio (60% AMI) | | | | |
| Studio (60% AMI) | | | | |
| 1bd (60% AMI) | | | | |
| Studio | 16 | 450 | 980 | 2.18 |
| Studio | 40 | 475 | 1,033 | 2.18 |
| Studio | 36 | 525 | 1,131 | 2.15 |
| 1bd | 0 | 625 | 1,207 | 1.93 |
| 1bd | 0 | 675 | 1,294 | 1.92 |
| 1bd | 16 | 700 | 1,353 | 1.93 |
| Totals | 108 | 56,300 | 119,381 | |
| | | | | |
| | | | PER YEAR | PUPY |
| Potential Gross Rent | | | 1,432,577 | 13,265 |
| Other Income $83/unit/mo | | | 111,401 | 1,031 |
| Parking Income $95/unit/mo | | | 117,590 | 1,210 |
| Potential Gross Income | | | 1,661,569 | 15,385 |
| Vacancy @ 5% | | -5% | (83,078) | (769) |
| Effective Gross Income | | | 1,578,491 | 14,616 |
| Expenses @ | | | (522,686) | (4,840) |
| Apartment NOI | | | 1,055,804 | 9,776 |
| Retail Operating Proforma | | | | |
| Retail Tenant | | | | |
| Potential Gross Income | | | | |
| Vacancy | | | | |
| Effective Gross Income | | | | |
| Retail Expenses | | | | |
| Retail NOI | | | | |
| Total Combined NOI | | | 1,055,804 | 9,776 |
| *Ground Rent @ 8% of $20psf* | | | (140,591) | (1,302) |
| NOI Net of Ground Rent | | | 915,213 | 8,474 |
| Annual Debt Service | | | (748,861) | (6,934) |
| Annual Cash Flow | | | 166,352 | 1,540 |
| Est. Cap Rate and Value | | | 13,074,470 | 121,060 |
| | | PSF | TOTAL | PER UNIT |
| Hard Cost PSF | | 166 | 9,369,430 | 86,754 |
| Savings @ 12% | Savings @ 4% | (7) | (374,778) | (3,470) |
| Soft Cost PSF | | 35 | 1,970,500 | 18,245 |
| Total Development Cost (TDC) | | | 10,965,172 | 101,529 |
| Profit/(Loss) | Profit/(Loss) | | 2,109,298 | 37.47 |
| Return on Cost = NOI / TDC | | | 8.3% | |
| Loan Analysis | | | | |
| Loan to Cost @ | | 90% | 9,868,655 | |
| Loan @ DSCR | | 1.11 | 12,450,707 | |
| | | Mo | Yr | |
| Interest Rate | | 0.596% | 7.15% | |
| Term | | 480 | 40 | |
| Amortization | | 480 | 40 | |
| Debt Payment | | $62,405 | $748,861 | |
| | | | | |
| Debt Service Coverage | | 1.22 | | |
| Mortgage Constant | 7.63% | | | |
| Debt | | | 9,868,655 | 90% |
| Equity | | | 1,096,517 | 10% |
| TDC | | | 10,965,172 | 100% |
| | | | | |
| ROE = CF/Equity | | | 15.2% | |

| Apartment Operating Proforma | Total: 683 Units | |
|---|---|---|
| | UNITS | |
| Studio (60% AMI) | | |
| Studio (60% AMI) | | |
| 1bd (60% AMI) | | |
| Studio | | |
| Studio | | |
| Studio | | |
| 1bd | | |
| 1bd | | |
| 1bd | | |
| Totals | 683 | |
| | | |
| | PER YEAR | PUPY |
| Potential Gross Rent | 8,780,905 | 12,856 |
| Other Income $83/unit/mo | 684,837 | 1,003 |
| Parking Income $95/unit/mo | 722,884 | 1,058 |
| Potential Gross Income | 10,188,626 | 14,917 |
| Vacancy @ 5% | (509,431) | (746) |
| Effective Gross Income | 9,679,195 | 14,172 |
| Expenses @ | (3,115,007) | (4,561) |
| Apartment NOI | 6,564,188 | 9,611 |
| Retail Operating Proforma | - | - |
| Retail Tenant | 35 | 0 |
| Potential Gross Income | 189,000 | 277 |
| Vacancy | (13,230) | (19) |
| Effective Gross Income | 175,770 | 257 |
| Retail Expenses | (32,400) | (47) |
| Retail NOI | 143,370 | 210 |
| Total Combined NOI | 6,707,558 | 9,821 |
| *Ground Rent @ 8% of $20psf* | (622,219) | (911) |
| NOI Net of Ground Rent | 6,085,339 | 8,910 |
| Annual Debt Service | (4,650,975) | (6,810) |
| Annual Cash Flow | 1,434,364 | 2,100 |
| Est. Cap Rate and Value | 86,933,415 | 127,282 |
| | TOTAL | PER UNIT |
| Hard Cost PSF | 61,373,722 | 89,859 |
| Savings @ 12% | (4,964,179) | (7,268) |
| Soft Cost PSF | 13,302,625 | 19,477 |
| Total Development Cost (TDC) | 69,712,168 | 102,068 |
| Profit/(Loss) | 17,221,248 | 25,214 |
| Return on Cost = NOI / TDC | 8.7% | |
| Loan Analysis | | |
| Loan to Cost @ | | |
| Loan @ DSCR | | |
| | TOTALS | |
| Interest Rate | | |
| Term | | |
| Amortization | | |
| Debt Payment | $387,581 | |
| | $4,650,975 | |
| Debt Service Coverage | 1.31 | |
| Mortgage Constant | | |
| Debt | 62,740,951 | 90% |
| Equity | 6,971,217 | 10% |
| TDC | 69,712,168 | 100% |
| | | |
| ROE = CF/Equity | 20.6% | |

## Appendix A

| The Blocks - Leveraged Equity Investor Return | | | | | |
|---|---|---|---|---|---|
| | | NPV Investment | Investment | Annual Cash Flow | Net Cash Flow |
| 0 | 2011 | (5,568,077) | (1,151,533) | 0 | (1,151,533) |
| 1 | 2012 | | (1,743,644) | 141,399 | (1,602,245) |
| 2 | 2013 | | (1,201,316) | 441,031 | (760,285) |
| 3 | 2014 | | (1,778,207) | 802,015 | (976,192) |
| 4 | 2015 | | (1,096,517) | 1,271,362 | 174,845 |
| 5 | 2016 | | | 1,509,001 | 1,509,001 |
| 6 | 2017 | | | 1,592,405 | 1,592,405 |
| 7 | 2018 | | | 1,676,270 | 1,676,270 |
| 8 | 2019 | | | 1,760,567 | 1,760,567 |
| 9 | 2020 | | | 1,845,269 | 1,845,269 |
| 10 | 2021 | | | 1,930,345 | 1,930,345 |
| 11 | 2022 | | | 2,015,763 | 2,015,763 |
| 12 | 2023 | | | 2,101,489 | 2,101,489 |
| 13 | 2024 | | | 2,187,487 | 2,187,487 |
| 14 | 2025 | | | 2,273,720 | 2,273,720 |
| 15 | 2026 | | | 2,360,147 | 2,360,147 |
| 16 | 2027 | | | 16,210,324 | 16,210,324 |
| | | | **(6,971,217)** | **40,118,594** | **33,147,377** |
| **Residual Value** | | | | | |
| NOI | 7,121,147 | | | **IRR** | **23.8%** |
| Cap @ 10% | **71,211,471** | | | **NPV** | **9,811,851** |
| Less Debt Payoff | 53,200,000 | | | | |
| Residual Value | **18,011,471** | | | | |
| Less Kicker 10% | (1,801,147) | | | | |
| Residual to Dev | **16,210,324** | | | | |

| Discount Rate | NPV (millions) |
|---|---|
| 6% | 13.3 |
| 7% | 11.4 |
| 8% | 9.8 |
| 9% | 8.4 |
| 10% | 7.1 |

| The Blocks - Return To Land Owner | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Investment | CF - Existing Units | Hard Ground Lease Income | Income Kicker | Equity Kicker | Net Cash Flow |
| 0 | 2011 | (7,318,080) | | | | | (7,318,080) |
| 1 | 2012 | | 403,500 | 140,591 | 24,953 | | 569,044 |
| 2 | 2013 | | 345,500 | 254,739 | 69,898 | | 670,136 |
| 3 | 2014 | | 217,500 | 401,435 | 124,045 | | 742,981 |
| 4 | 2015 | | 111,000 | 522,744 | 194,447 | | 828,191 |
| 5 | 2016 | | | 679,018 | 230,093 | | 909,111 |
| 6 | 2017 | | | 699,388 | 242,604 | | 941,992 |
| 7 | 2018 | | | 522,744 | 255,183 | | 777,928 |
| 8 | 2019 | | | 741,981 | 267,828 | | 1,009,809 |
| 9 | 2020 | | | 764,241 | 280,533 | | 1,044,774 |
| 10 | 2021 | | | 787,168 | 293,295 | | 1,080,462 |
| 11 | 2022 | | | 810,783 | 306,107 | | 1,116,890 |
| 12 | 2023 | | | 835,106 | 318,966 | | 1,154,073 |
| 13 | 2024 | | | 860,159 | 331,866 | | 1,192,026 |
| 14 | 2025 | | | 885,964 | 344,801 | | 1,230,765 |
| 15 | 2026 | | | 912,543 | 357,765 | | 1,270,308 |
| 16 | 2027 | | | | | 1,714,568 | 1,714,568 |
| | | **(7,318,080)** | **1,077,500** | **9,818,606** | **3,642,384** | **1,714,568** | **8,934,978** |

| Residual Value | |
|---|---|
| NOI | 7,034,568 |
| Cap @ 10% | **70,345,676** |
| Less Principal Balance | (53,200,000) |
| Residual Value | 17,145,676 |
| Kicker 10% | 1,714,568 |

| | |
|---|---|
| IRR | **9.6%** |
| NPV | $1,559,172 |

| Discount Rate | NPV |
|---|---|
| 6% | 2.3M |
| 7% | 1.5M |
| 8% | 912K |

**Appendix C**

## The Blocks -Development Budget

| | | |
|---|---|---|
| ***HARD COSTS*** | | |
| Land Acquisition | - | |
| Center Park/Square | 190,780 | |
| Apartment hard | 52,560,092 | |
| Parking Hard | 8,622,850 | |
| Assumed Hard Cost Savings | (4,964,179) | |
| Hard Cost Contingency 4% | 2,256,382 | |
| **Total Hard Costs** | **58,665,924** | |
| ***SOFT COSTS*** | | ***WORKING CAPITAL BUDGET*** |
| Architecture and Engineering | 2,820,477 | 1,410,239 |
| Attorney | 80,000 | 20,000 |
| Accountant | 30,000 | 10,000 |
| Environmental | 45,000 | 45,000 |
| Soils/Appraisal/Market Report | 60,000 | 60,000 |
| Property Tax | 600,000 | - |
| Insurance | 121,600 | - |
| Marketing | 100,000 | - |
| General & Administrative | 20,000 | 20,000 |
| Soft Cost Contingency | 77,542 | 30,000 |
| Interest Reserve | 3,607,833 | - |
| Loan Fees | 627,410 | - |
| Development Fee & Overhead | 2,256,382 | 100,000 |
| Capitalized Operating Expenses During Sales Period | 600,000 | - |
| **Total Soft Costs** | **11,046,243** | |
| **Total Development Costs** | **69,712,168** | **1,695,239** |

## THE BLOCKS 15 YEAR PROFORMA

| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assumptions | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| Annual Potential Gross Rent | 2% | | 1,432,577 | 3,531,210 | 5,111,478 | 7,518,008 | 9,100,945 | 9,282,964 | 9,468,624 | 9,657,996 | 9,851,156 | 10,048,179 | 10,249,143 | 10,454,125 | 10,663,208 | 10,876,472 | 11,094,002 | 11,315,882 |
| Other Income $85/unit/mo | 2% | | 111,401 | 280,191 | 406,136 | 584,152 | 707,236 | 721,381 | 735,809 | 750,525 | 765,535 | 780,846 | 796,463 | 812,392 | 828,640 | 845,213 | 862,117 | 879,360 |
| Parking Income $95/unit/mo | 2% | | 117,590 | 295,758 | 428,699 | 616,605 | 746,527 | 761,458 | 776,687 | 792,221 | 808,065 | 824,227 | 840,711 | 857,525 | 874,676 | 892,169 | 910,013 | 928,213 |
| **Potential Gross Income** | | | **1,661,569** | **4,107,159** | **5,946,313** | **8,718,765** | **10,554,709** | **10,765,803** | **10,981,119** | **11,200,742** | **11,424,757** | **11,653,252** | **11,886,317** | **12,124,043** | **12,366,524** | **12,613,854** | **12,866,132** | **13,123,454** |
| Vacancy | -5% | | (83,078) | (205,358) | (297,316) | (435,938) | (527,735) | (538,290) | (549,056) | (560,037) | (571,238) | (582,663) | (594,316) | (606,202) | (618,326) | (630,693) | (643,307) | (656,173) |
| **Effective Gross Income** | | | **1,578,491** | **3,901,801** | **5,648,997** | **8,282,827** | **10,026,974** | **10,227,513** | **10,432,063** | **10,640,705** | **10,853,519** | **11,070,589** | **11,292,001** | **11,517,841** | **11,748,198** | **11,983,162** | **12,222,825** | **12,467,281** |
| Expenses @ $4,300/unit | 3% | | (522,686) | (1,282,439) | (1,863,775) | (2,709,074) | (3,313,032) | (3,412,423) | (3,514,796) | (3,620,240) | (3,728,847) | (3,840,712) | (3,955,934) | (4,074,612) | (4,196,850) | (4,322,756) | (4,452,438) | (4,586,012) |
| **Apartment NOI** | | | **1,055,804** | **2,619,362** | **3,785,223** | **5,573,753** | **6,713,941** | **6,815,090** | **6,917,267** | **7,020,465** | **7,124,672** | **7,229,877** | **7,336,067** | **7,443,229** | **7,551,348** | **7,660,406** | **7,770,387** | **7,881,270** |
| | | | | | | | | | | | | | | | | | | |
| Retail Tenant | | | - | - | | - | - | | | | | | | | | | | |
| **Retail Potential Gross Income** | 2% | | - | - | **189,000** | **192,780** | **196,636** | **200,568** | **204,580** | **208,671** | **212,845** | **217,102** | **221,444** | **225,872** | **230,390** | **234,998** | **239,698** | **244,492** |
| Vacancy | -7% | | - | - | (13,230) | (13,495) | (13,764) | (14,040) | (14,321) | (14,607) | (14,899) | (15,197) | (15,501) | (15,811) | (16,127) | (16,450) | (16,779) | (17,114) |
| **Effective Gross Income** | | | - | - | **175,770** | **179,285** | **182,871** | **186,529** | **190,259** | **194,064** | **197,946** | **201,904** | **205,943** | **210,061** | **214,263** | **218,548** | **222,919** | **227,377** |
| Expenses | 3% | | - | - | (32,400) | (33,372) | (34,373) | (35,404) | (36,466) | (37,560) | (38,687) | (39,848) | (41,043) | (42,275) | (43,543) | (44,849) | (46,195) | (47,580) |
| **Retail NOI** | | | - | - | 143,370 | 145,913 | 148,498 | 151,124 | 153,793 | 156,504 | 159,258 | 162,057 | 164,899 | 167,787 | 170,720 | 173,699 | 176,724 | 179,797 |
| **Total Combined NOI** | | | **1,055,804** | **2,619,362** | **3,928,593** | **5,719,666** | **6,862,439** | **6,966,214** | **7,071,060** | **7,176,969** | **7,283,930** | **7,391,933** | **7,500,966** | **7,611,016** | **7,722,067** | **7,834,105** | **7,947,111** | **8,061,067** |
| *Hard Ground Rent @ 8% of $20 psf* | 3% | | (140,591) | (254,739) | (401,435) | (522,744) | (679,018) | (699,388) | (720,370) | (741,981) | (764,241) | (787,168) | (810,783) | (835,106) | (860,159) | (885,964) | (912,543) | (939,919) |
| NOI Net of Ground Rent | | | 915,213 | 2,364,623 | 3,527,157 | 5,196,922 | 6,183,421 | 6,266,826 | 6,350,690 | 6,434,987 | 6,519,689 | 6,604,765 | 6,690,183 | 6,775,910 | 6,861,908 | 6,948,140 | 7,034,568 | 7,121,147 |
| Annual Debt Service | | | (748,861) | (1,898,640) | (2,700,190) | (3,900,607) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) | (4,649,468) |
| **Annual Cash Flow** | | | **166,352** | **465,984** | **826,967** | **1,296,315** | **1,533,954** | **1,617,358** | **1,701,222** | **1,785,520** | **1,870,222** | **1,955,298** | **2,040,716** | **2,126,442** | **2,212,440** | **2,298,673** | **2,385,100** | **2,471,679** |
| Cash Flow Distributions | | | | | | | | | | | | | | | | | | |
| **Equity Investor Preferred Return** | 15% | | **24,953** | **69,898** | **124,045** | **194,447** | **230,093** | **242,604** | **255,183** | **267,828** | **280,533** | **293,295** | **306,107** | **318,966** | **331,866** | **344,801** | **357,765** | **370,752** |
| **Income Kicker to Land Owner** | 15% | | **24,953** | **69,898** | **124,045** | **194,447** | **230,093** | **242,604** | **255,183** | **267,828** | **280,533** | **293,295** | **306,107** | **318,966** | **331,866** | **344,801** | **357,765** | **370,752** |
| **Equity Investor** | 70% | | **116,447** | **371,133** | **677,969** | **1,076,915** | **1,278,908** | **1,349,801** | **1,421,086** | **1,492,739** | **1,564,736** | **1,637,050** | **1,709,656** | **1,782,523** | **1,855,621** | **1,928,919** | **2,002,382** | **2,075,975** |

### Ground Owner Cash Flow Comparison

| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash Flow -Existing Units | | | | | | | | | | | | | | | | | | |
| Existing Units | | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | |
| | | | | | | | | | | | | | | | | | | |
| Proposed Cash Flow | | | | | | | | | | | | | | | | | | |
| Existing Units | | 403,500 | 345,500 | 217,500 | 111,000 | | | | | | | | | | | | | |
| Ground Rent | | | 140,591 | 254,739 | 401,435 | 522,744 | 679,018 | 699,388 | 720,370 | 741,981 | 764,241 | 787,168 | 810,783 | 835,106 | 860,159 | 885,964 | 912,543 | |
| Income Kicker | | | 24,953 | 69,898 | 124,045 | 194,447 | 230,093 | 242,604 | 255,183 | 267,828 | 280,533 | 293,295 | 306,107 | 318,966 | 331,866 | 344,801 | 357,765 | |
| Management Fee (4% EGI) | 4% | | 63,140 | 156,072 | 232,991 | 338,484 | 408,394 | 416,562 | 424,893 | 433,391 | 442,059 | 450,900 | 459,918 | 469,116 | 478,498 | 488,068 | 497,830 | |
| Equity Kicker | | | | | | | | | | | | | | | | | | 1,714,568 |
| Total Cash Flow Proposed | | 403,500 | 574,184 | 698,209 | 869,471 | 1,055,676 | 1,317,505 | 1,358,554 | 1,400,446 | 1,443,200 | 1,486,832 | 1,531,362 | 1,576,808 | 1,623,189 | 1,670,524 | 1,718,834 | 1,768,138 | 1,714,568 |

## Appendix E

**Will Macht**

Professor Will Macht brings over 30 years of teaching experience to Portland State University as a professor in the school of Urban Studies & Planning. He is currently President of Macht & Company, a development, management, consulting and investing firm. In these positions, as in much of his prior development experience, he concentrates on the types of mixed-use, public private partnerships and retail marketplaces pioneered by the Rouse Company, which he served as a Development Director.

**Caroline Uittenbroek**

Caroline Uittenbroek is an exchange student at Portland State University. Before attending PSU, She was a student of Metropolitan Studies at the University of Amsterdam where she specialized in urban renewal projects and creating urban vibrancy in city districts. She has a bachelors degree in Urban Planning also from the University of Amsterdam. During her undergraduate studies she was an intern with the Schiphol Area Development Company (SADC). Caroline is currently working on her master-thesis on ways developers and planners are incorporating urban vibrancy in waterfront redevelopment areas in Amsterdam and Portland, Oregon.

**Stephen Smith**

Stephen has worked in Portland at Vallaster Corl Architects, mainly focusing on residential, adaptive reuse, and sustainable projects. His latest project, the Esquire Apartments on Park Ave., has recently been awarded LEED Gold and is on the National Historic Register. He is also currently acting as property manager at the same building. Stephen has worked as an architectural consultant with Otak and Norway Development, among several other clients. Stephen graduated from Rhodes college in 2000, and from Montana State University in 2006. He is currently a student in PSU's Real Estate Development Program.

**Carly Riter**

Carly Riter has an educational background in urban studies and geography, with a focus on downtown revitalization. In addition to studying real estate development, she currently is earning her Masters in Urban and Regional Planning. Carly is focusing her academic and career path on fostering economic viability in central cities through development, policy and planning. She works on these issues on a staff level in the Government Relations department at the Portland Business Alliance, Greater Portland's Chamber of Commerce.

**Kate Chavez**

Kate Chavez works in Asset Management at The Richman Group Affordable Housing Corporation (TRGAHC) where she monitors a portfolio of low-income housing tax credit properties located throughout the Western United States. Prior to her current role, Kate worked in acquisitions at TRGAHC where she underwrote and closed LIHTC transactions. Kate holds a B.S. degree in Finance from University of Colorado at Boulder, an MBA from Portland State University and is a student in PSU's Real Estate Development program. Kate is a member of the Urban Land Institute's Young Leaders Group and serves on the Board of Directors of Rebuilding Together Portland.

**John Patton**

John Patton has B.S in Communication from Calvin College. He is currently completing his MBA with a real estate endorsement at Portland State. John's work experience includes Yahoo!, Pulse Multimedia, Black Lake Studio, and currently WebTrends, Inc. John currently works with the Washington County business alliance and a property investment team specializing in residential rental properties.

**Brian Newman**

Brian Newman is the Director of Campus Planning, Development and Real Estate at Oregon Health and Science University (OHSU). In this capacity he guides long-range facility and campus master planning efforts and manages the University's space planning and real estate activities. Prior to joining OHSU, Newman served as a member of the Metro Council, the elected regional government in Portland. He was also a senior planner at Parson Brinckerhoff where he specialized in transit station-area planning. He has a Masters degree in City and Regional Planning from the University of California, Berkeley and a BA from Willamette University.

**David Blindheim**

David Blindheim is a student in the Real Estate Development Certificate program at Portland State University. He majored in mechanical engineering at Dartmouth College, and is currently a professional engineer with Solarc Architecture and Engineering, where he specializes in high performance building systems design. Through his real estate coursework, David is coming to know the development and ownership side of the building world, and wants to find ways to bring value to a building through integrated design.

**Eugene "Mickey" Nucci Jr.**

Mickey Nucci graduated Cum Laude from Portland State University in 2006 with a B.S. degree in Communications. He is currently pursuing a Graduate Certificate in Real Estate from Portland State University. Mickey works for the State of Oregon Judicial Department and is also a licensed Real Estate Broker of Oregon. He hopes to use his legal background in combination with his real estate education to establish a career in commercial brokerage and development.