118 Fort Road

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Background

On July 1, 1998, Jeff O'Ryan, the partner in charge of marketing and leasing for Consolidated Enterprises, Inc. ("Consolidated"), was reviewing the documents to be submitted for the next day's bid. Hunter Auctioneers was holding an auction for 118 Fort Road, a 0.65 acre land parcel in the heart of Collegecenter, a small, mixed residential-retail area adjacent to Curtin University ("Curtin") in Hunter, New York.

For several years, Consolidated had been eyeing the development opportunities in Collegecenter. This area had undergone significant redevelopment over the last decade; however, Consolidated had not yet found a viable opportunity. Jeff knew this was an opportunity that Consolidated could not pass up, and for several weeks Jeff had tried to convince his two partners that his proposed upscale student housing development was the highest and best use of the subject land. However, they were not convinced that a market existed for some of the amenities Jeff proposed. Although they eventually agreed to proceed with a bid based on a luxury student housing development, they eliminated several amenities that Jeff thought would have added value to the project.

The Developer

Jeff O'Ryan, William ("Bill") Mack and Richard Brown had partnered in real estate investments in Hunter for 25 years. Jeff was raised in Hunter, but decided to pass on Curtin's offer of admission and instead had attended Cornell University. Jeff became interested in real estate when he purchased a six-flat building in Ithaca, New York, rented apartments to his college buddies, lived "rent-free," and made enough money to really enjoy his weekends. After graduation, Jeff decided to move back to Hunter. He further pursued his hobby by acquiring small apartment buildings in the area. Jeff quickly turned his hobby into a lucrative career; he became an active figure in the local community, and was well known in the small world of Hunter real estate. Bill also graduated from Cornell; however, he spent the first part of his career working for two major New York City investment banks. After nearly a decade on Wall Street, he gained a reputation for knowing his negotiating counterparts' needs better than they did. Neither as popular as Jeff nor as analytical as Bill, Richard won his position in Hunter real estate with his ability to control construction costs. Trained as a construction engineer, Richard knew how to cut costs without jeopardizing the quality of the project. For 25 years, their combined talent worked successfully in acquisition, development, and management of commercial and residential real estate. Jeff oversaw marketing and leasing; Richard primarily controlled the construction and management

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operations; and Bill usually had the final approval with acquisition and finance decisions. The firm had experience with multi-family projects, shopping centers, flex space, office properties, and a number of mixed-use developments in Hunter. They had been principals in over $500 million in real estate transactions encompassing the acquisition and development of over 2.5 million square feet of commercial real estate. At this time, Consolidated owned and operated 18 commercial office facilities and approximately 1,900 apartment units.

Over the years, Consolidated developed a distinct company strategy that capitalized on the talents of its three experienced professionals. Consolidated focused on investment opportunities in which it could create value through its competitive advantages—lower cost of capital, construction and management efficiencies and local market knowledge. They channeled their efforts into identifying under-valued properties and market niche opportunities that had not been satisfied. Although enjoying stable growth, the firm had never established a goal for long-term growth. Bill once expressed their strategy as follows:

We focus on properties within our backyard; take advantage of the stable local economy; respond to the local market needs; and create value through our competitive advantages.

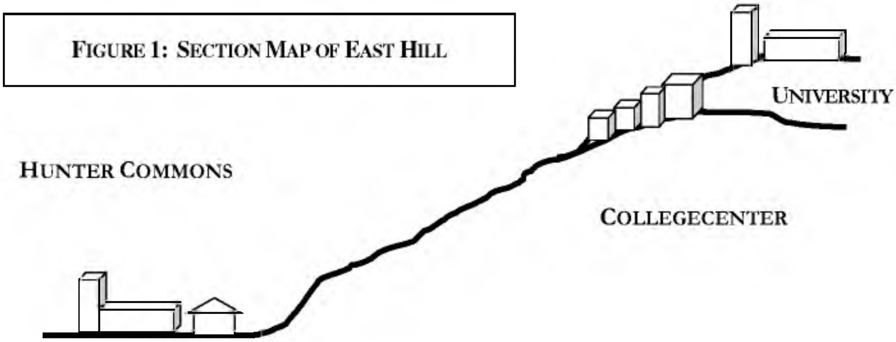
The Market

The City of Hunter was a dynamic, well-educated community recognized throughout the nation for its uniquely stable economy, balanced by research-related employers, a light manufacturing industry and Curtin University. Curtin was consistently placed among the top research universities in the world. Students were attracted to its dynamic academic programs and its diverse student body.

The 50,000 residents of Hunter created a diverse community atmosphere and a special quality of life. Arts and entertainment opportunities were sophisticated and varied. Hunter was home to some 15 museums and galleries, and it offered the film buff a wide array of venues and genres. Sports fans and recreational athletes enjoyed a vast range of opportunities in the region, with athletic events ranging from cross country skiing and slow-pitch softball to fishing, kayaking and national college sports. Because of the large international student base that Curtin drew, Hunter offered great dining with cuisines ranging from Asian to Mediterranean to Latin American.

The Collegecenter market was almost exclusively dependent on the student population of Curtin—not only because of Curtin's adjacent location, but also because of the topography of Hunter. Downtown Hunter, locally known as the Hunter Commons, was developed in a valley, at the base of Keuka Lake. Curtin and Collegecenter were located 5 blocks uphill from the Hunter Commons, with slopes between the two ranging from 20 to 30 degrees (Figure 1). Such topographic characteristics had forced Collegecenter to become an independent retail trade area. Curtin students were typically unwilling to travel outside of the Collegecenter market for day-to-day goods, thus local retailers tried to satisfy the demand. After nearly three decades of redevelopment, Collegecenter had exploded into a small, self-contained

FIGURE 1: SECTION MAP OF EAST HILL



central business district. Retailers densely lined Lyndon Avenue and Fort Road, which was the heart of Collegecenter ("Appendix I"). Shops included restaurants, bars, bookstores, grocery stores, coffee houses, beauty parlors, optical outlets, bike shops, and gift and drug stores. Most of the buildings were mixed-use, containing retail businesses on the first level and rental apartments on the upper levels, with an average height of five stories in the most densely populated area.

Student Housing

The characteristics of student housing had changed significantly over the last fifty years. Before the 1950s, residence halls were designed and built with the intention of creating a complete academic experience. Buildings were typically constructed with three or four stories, with no more than 30 students occupying each building. Under one roof, students studied in libraries; socialized in common areas; slept in private or shared rooms; and dined in a large central room that was shared by faculty and students alike. From the 1950s to the 1970s, influenced by a so-called International-Style, a new model of student housing emerged. This style was dominated by high-rise buildings with dormitories clustered around a central elevator core. Rooms were laid out in double-loaded corridors with shared bathing facilities; each room was configured for double occupancy, and furniture was fixed in the space. Social lounges served up to 60 students and study space was kept to a minimum. Eating facilities were provided by central buildings that served thousands of students at scheduled times. Since the majority of students grew up sharing a bedroom with siblings, the shared room communal bath model was acceptable at that time.

Entering the 1990s, student housing had to be adapted to a change in the way college students were raised. Most incoming freshmen grew up in single-child or two-child families and most freshmen had become accustomed to private bedrooms. Features that used to be considered luxuries: kitchens, private bathrooms, study lounges, and social spaces, were at this time considered basic necessities. Internet connectivity had also become an expected amenity by 1998. To meet the changing demand of the student housing market, universities were forced to either renovate their existing housing stock or construct new facilities. However, a lack of funding was a major impediment to renovation. Since universities were unable to adequately meet demand, off-campus upscale student housing complexes and privatized on-campus housing developments became more common. By this time, major institutions such as Trammell Crow and LaSalle Partners had been in the off-campus student housing market for several years. In addition, some specialized student housing developers had emerged, such as Ambling Companies, Inc, American Campus Communities, and Capstone Development Corp.

Supply and Demand

Curtin enrolled 13,537 undergraduate students and 6,058 graduate students during the 1997-1998 academic year. Since 1988, Curtin had increased enrollment by an average of 40 students per year. University policy required first year undergraduate students to live on-campus. During the 1997-1998 academic year, on-campus housing included 718 graduate apartments, which housed 936 graduate students. Approximately 6,000 undergraduate beds were available through the University. The University added 870 beds between 1990 and 1995, but then removed 70 beds between 1996 and 1998. On-campus rents for the 1997-1998 academic year were quoted from $450 to $650 per room per month for graduate housing. Undergraduate rents were quoted at $350 per person for a double-bed room and $400 per month for a single. Appendices II, III and IV outline typical floor plans, amenities, and services offered by Curtin.

Although Curtin University did supply housing for a large percentage of its students, nearly 12,500 students lived off-campus. Curtin students were drawn to 4 major sub-markets within Hunter: Collegecenter, East Hill, Hunter Commons, and Triangle Center. Collegecenter was a 10-minute walk to the center of Curtin's campus, while it took nearly 25 minutes to walk to either East Hill or Hunter Commons. Triangle Center was approximately one hour by foot or 25 minutes by bus.

Collegecenter was dominated by rental housing, with less than 5 percent of housing units within the immediate area being owner-occupied. Curtin students occupied 98 percent of the rental units. Collegecenter residential products included rental apartments converted from single-family houses, small pre-war apartment buildings, and a few large, post-1980 buildings. The majority of the Collegecenter rental units were within converted houses, and most of these were dilapidated. During the 1980s and 1990s, five sites were developed into new student apartments buildings. The first property developed was Collegecenter Court ("Court") in 1985 followed by Candlelight Park Apartments ("Candlelight") in 1986. Two years later, Collegecenter Plaza ("Plaza") was developed along with Egan House ("Egan"). Tighter lending practices and public policy halted development in the early 1990s. Consequently, the fifth property, Fort Road Apartments ("Fort"), was not developed until 1997.

Collegecenter housing had historically experienced occupancy rates nearing 95 percent. In the five post-1980 apartment buildings, rental rates were quoted on a per bed basis. Rates ranged from $410 per bed in three bedroom apartments to nearly $1,100 per bed in one-bedroom units (Figure 2).[4]

Figure 2: Rental Rates Per Bed for Competition

Property	Studio	1-Bed	2-Bed	3-Bed
Collegecenter Court	$ 619	$ 940	N/A	$ 482
Candlelight Park	N/A	$ 1,095	$ 609	$ 544
Collegecenter Plaza	$ 670	$ 948	$ 560	$ 541
Egan House	$ 590	N/A	N/A	$ 410
Fort Road Apartments	$ 744	$ 1,038	$ 560	N/A

Candlelight: 63 units—with sizes ranging from 1 to 3 bedrooms and 5 to 7 bedrooms. The rent included hot water. Candlelight did not have on-site parking, but the City of Hunter owned and operated a public parking garage behind Candlelight. Monthly parking was quoted at $120 for an unassigned space. Candlelight had experienced 100 percent occupancy since completion of the building in 1987.

Fort: 153 units—with studios, 1 and 2 bedroom apartments. The rent included electric heat and hot water. Uncovered parking was quoted at $150 per month and the building had a parking ratio of 0.30 spaces per bed. Fort had an occupancy rate of 100 percent during the 1997-1998 academic year.

Court: 48 units—with a mix of studios, 1 bedroom and 3 to 5 bedroom units. The rent included electric heat and hot water. Parking was not available at Court, but a Curtin-owned/operated lot was within 1.5 blocks of the building—unassigned parking was $125 per month. Court had average occupancy levels of 94 percent since construction in 1985.

Plaza: 85 units—with a mix of studios through 6 bedroom apartments. The rent included electric heat and hot water. Parking was quoted at the same rate as Fort Road Apartments. Plaza had a parking ratio of 0.28 spaces per bed. Plaza had average occupancy levels of 98 percent since its 1989 construction.

Egan: 26 units—with a mix of studios and 3 to 6 bedroom apartments. With the exception of hot water, utilities were paid by the tenants. Uncovered parking was quoted at $95 per month. Egan had a parking ratio of 0.37 spaces per bed. Egan had experienced 100 percent occupancy levels each year since its construction in 1989. (Appendices V, VI, VII)

The Collegecenter retail market was typical of college towns. Store revenues dropped significantly during the winter break and the summer months when the student population vacationed. During the one-month winter break, retailers usually experienced revenue declines of 90 percent, while the summer month sales declines were less severe at only 50 percent. This revenue fluctuation prevented national retailers from entering the Collegecenter market. However, local retailers found a way to successfully operate with these fluctuations. As a result, retail rents in Collegecenter were at $27 psf, with vacancy rates at less than 2 percent.

The Opportunity

The property up for bid was located in the heart of Collegecenter, on the north side of Fort Road, surrounded by five and six story buildings. It was a 10-minute walk from the center of Curtin's campus and a 15-minute walk to the Hunter Commons. However, because of the frigid winter climate in Hunter, many students chose to ride the public bus, which was easily accessible by the major Lyndon Avenue route. Jeff believed that 118 Fort Road could be the last opportunity for a large-scale apartment development in the near future. The land supply in Collegecenter was tight. All other reasonably developable sites had been developed.

While reading an article printed in American Demographics in the mid 1990s, Jeff realized that college students' needs were changing. Students were increasingly demanding amenities not provided by on-campus housing—students wanted to go through college life enjoying the same standards their parents had provided for the last 18 years. But in addition to an ever-increasing need for amenities, the American Demographics article's subtitle described another concern with students as tenants: "College students can be a lucrative rental market, but they can also be the tenants from hell."[5] The article pointed out that landlords face problems in collecting rent from young students still inexperienced in managing money. Students are also highly transient and they can be difficult to track for missed payments[6]. The wild social life of some students caused damage to building interiors and a few landlords have had to respond to late-night calls from the police. Jeff understood these concerns, and he was willing to accept the added risk for the added return.

In addition to reading the article printed in American Demographics, Jeff had also come across the results of a national student housing study conducted in 1996 by Cornell University. As noted by Cornell, "For students living on-campus, the most important factors relating to their selection of space were the type and size of room, the level of privacy, the availability of quiet space in which to work and study, security, value for dollars spent, proximity to classes and dining, and social atmosphere. The relative priority of these factors varied by academic level, with social atmosphere more important to freshmen than upper-division students and privacy increasing in importance as students progressed in their years. Students residing off campus indicated a slightly different set of factors: value for dollars spent, opportunity to live with preferred roommates, proximity to classes, type of room, privacy, and availability and quality of common living areas."[7] Jeff recognized that this was a void in the Collegecenter market, since no building packaged all of these amenities and services under one roof. Jeff wanted to capitalize on this opportunity by providing these amenities and services at 118 Fort Road (Figure 3). Based on Jeff's estimate of cost and annual operating expense, providing these amenities was financially feasible.

Figure 3: Intially Proposed Amenities

Amenity	Cost to Furnish	Required Square Feet	Annual Operating Exp.
Study Room & Café	$ 75,000	1200	$ 15,000
Steam Room	$ 125,000	1200	$ 20,000
Fitness Center	$ 100,000	1200	$ 10,000
Vending/Game Room	$ 20,000	1200	$ 1,000
Multi-Media Room	$ 50,000	1200	$ 2,000
24 Hr. Concierge	$ -	0	$ 90,000
In-Room Laundry	$ 100,000	0	$ 20,000
1/2 Court Rooftop B-Ball	$ 30,000	0	$ 3,000
2 Tanning Beds	$ 25,000	600	$ 5,000

The subject land consisted of two parcels totaling 0.65 acres. It was currently zoned B-2b, which required a mix of residential and retail space. Parking was not a development requirement, due to the City of Hunter's desire to encourage the use of public transportation. Within the boundaries of Collegecenter Proper, no development could exceed a Floor Area Ratio ("FAR")[8] of 4.5 or a site coverage ratio of 75 percent.[9] Jeff estimated that he could build a 120,000 square foot, 6-story apartment building. Assuming 6,000 square feet of retail space, space available for residential build-out would be roughly 114,000. Rental apartment buildings usually had an efficiency ratio of 80 to 85 percent, and based on other apartment building projects, Jeff was confident that an 85 percent ratio would suffice.[10] Jeff concluded that the rentable space would be 97,000 square feet, allowing roughly 200 beds with an average footprint of 485 square feet.[11]

Based on an estimate of $850 in monthly revenue per bed and $27 psf for the retail space, annual gross revenue would be $2.2 million. Jeff was confident that his management team could operate 118 Fort Road at 50 percent of the Potential Gross Income[12]—yielding a Year 1 net operating income ("NOI") of $1.1 million.[13] Employing a market capitalization rate ("Cap Rate") of 8 percent, the new building would be valued at $13.75 million.[14] Although knowing that the development cost on an infill site could be significantly higher than average, he expected Richard could keep development costs under $80/sf, which resulted in a total development cost of $9.6 million. Jeff then did a quick "back-of-the-envelope" residual land value calculation ("Figure 4").[15] Jeff thought a 12 percent return on investment ("ROI"), or $1,473,000, was reasonable.[16] At a 12 percent ROI, adding leverage to the financing structure could provide a sufficient return to equity. Jeff thought the land was worth about $2.7 million ("Figure 4"). And he was fairly confident that nobody would pay that price for the parcel in question. Therefore, he thought that he and his partners had finally found a viable Collegecenter opportunity!

Figure 4: "Back Of The Envelope" Caclulation

Residual Land Value		
Finished Property Value	$	13,750,000
Development Cost	$	9,600,000
Return on Investment; 12%	$	1,473,000
Residual Land Value	$	2,677,000

That afternoon Jeff called Bill and Richard to schedule a dinner meeting at a local French restaurant, La Fez. After small talk and a short update on ongoing projects, Jeff informed his two partners of the news of 118 Fort Road—and how lucrative it could be. Both Bill and Richard agreed it was an interesting opportunity, but noted that none of them had any experience with student housing. They were not sure if their experience from developing and managing non-student rental apartments was sufficient to successfully develop 118 Fort Road. They discussed partnering with a student housing developer. Bill knew a local entrepreneur, John Torren, who had successfully completed several student housing projects in Hunter. Bill had worked with and trusted John, but the three partners wondered whether the knowledge and expertise of Torren would justify sharing equity ownership in the project.

Rather than partnering with Torren, the team decided to contract with an experienced architect. So they contacted John's architect, and he agreed to join the team. Working with the architect, Consolidated started to touch the real issues of the deal and move toward a valuation and bidding strategy. The architect confirmed many of Jeff's thoughts, but he questioned some of his assumptions and proposed amenities. Further analyses supported the architect's thoughts, and the team realized that Jeff's initial proposal had to be amended. It was now time to finalize the unit mix, services, amenities and introductory rental rates—all of which were necessary to develop a final bidding price and bidding strategy.

The Product Mix

The three partners and the architect developed a unit mix that included studios, one, two and three bedroom apartments—outlined in Figure 5. Much of the unit mix was premised off a study conducted by Curtin University that showed approximately 21 percent of off-campus renters preferred, and were willing, to pay to live in modern apartment buildings close to campus. The survey also showed that 35 percent of off-campus residents preferred to live alone.

Figure 5: Proposed Unit Mix

Unit Type	Number of Units	Average SF Per Unit
Studio	33	425
One Bedroom	42	650
Two Bedrooms	16	900
Three Bedrooms	30	1300
Total	**121**	

In addition to the residential units, they planned to include 6,200 square feet of ground floor retail. Jeff's neighbor, Walter McKenzie, had been asking Jeff for years to partner with him in an American-Style restaurant. So, Jeff thought about approaching Walter to use the 6,200 square foot retail space for the restaurant. Walter had managed restaurants for 30 years, but recently moved to Hunter to retire. He was 58 years old, and he was willing to put up 60 percent of the required equity to open the restaurant, as long as Jeff put up the remaining 40 percent. The third piece of revenue for the building would come from 87 parking spaces which could each be rented at roughly $150 per month. Although Jeff did not consider parking in his original proposal, the architect convinced him that the only way 118 Fort Road could position itself as the preeminent building in Collegecenter would be to offer on-site, enclosed parking.

The Amenities and Services

After a long, hard look at the Collegecenter market, Bill, Richard and the architect agreed that some of the amenities proposed by Jeff were unnecessary for a student housing project. Although part of Jeff still believed there was a market for his initially proposed amenities, he trusted his partners' opinions. After eliminating the café, steam room, 16 hours of concierge service, in-room laundry, ½ court rooftop basketball and the 2 tanning beds, Bill and Richard thought the below outlined amenities were more likely to be accepted and paid for by the market (Figure 6).

Figure 6: Amenity Cost Information

Amenity	Cost to Furnish	Required Square Feet	Annual Operating Expenses
Study Room	$ 25,000	900	$ 1,000
Laundry Room	$ 5,000	900	$ 1,500
Fitness Center	$ 100,000	900	$ 10,000
Vending/Game Room	$ 20,000	900	$ 1,000
Multi-Media Room	$ 50,000	900	$ 2,000
8 Hr. Concierge	–	0	$ 30,000

2nd Floor:	Furnished study room with wall-mounted whiteboards, plush couches, large tables, and "plug-in" dial-up Internet access for group or individual study.
3rd Floor:	Smart-card laundry system.
4th Floor:	A fitness center featuring commercial-grade Tectrix and Precor cardio equipment and a Universal strength station. The rooms would also boast a mirrored wall and a wall mounted TV and VCR.
5th Floor:	A vending/game-room providing coin-operated snack, beverage and game machines.
Penthouse:	A state of the art multi-media/cinema room featuring an 84" projection screen, surround sound, leather seating, and cinema-type lighting.

Appendices VIII and IX outline the proposed apartment features, amenities and floorplans. In addition to building and apartment amenities superior to those of the competition, 118 Fort Road would provide other services, including: business center services, dry cleaning and laundry pickup, personal cleaning services, and plant watering.

Pricing & Communications Strategy

Because upscale apartment buildings were nonexistent in the Hunter market, Jeff was concerned how large a premium students would be willing to pay for these services and amenities. However, Jeff thought he could position 118 Ford Road at the high end of the market as he was confident there was pent-up demand for upscale student housing. The partners agreed. The proposed pricing is outlined in Figure 7.

Figure 7: Proposed Rental Rates

Unit Type	Average $ Per Bed
Studio	$ 878
1 Bedroom	$ 1,243
2 Bedroom	$ 740
3 Bedroom	$ 574

To ensure 118 Fort Road was unparalleled in the marketplace, an emphasis would be placed on excellent customer service starting from the initial contact with the prospective resident. This customer service would serve as a prelude to the excellent service offered after the lease was signed and the resident had moved in. The leasing agents would be trained on building details and operations and would go "above and beyond" standard services to ensure resident satisfaction with the leasing process.

Jeff strongly believed that creating an identity was essential to the success of 118 Fort Road. A unique logo would be created to begin the process of establishing a strong brand identity. The logo would be used in all aspects of the marketing program including the construction signs, print ads, direct mailers, promotional "give-aways" (such as hats, pens, mouse pads, water bottles, and t-shirts), and leasing brochures.

The Bidding Strategy

On June 30, the three partners met to finalize their bid proposal. Bill handed each partner a copy of the financial projections (Appendix X). Based on a target 20 percent discounted return on equity, the firm could pay up to $2.0 million for the parcel. However, they did not want to be too aggressive and overpay with their bid. One method used to determine value is the Sales Comparison approach, which compares the subject land to current listings or recent sales of comparable parcels. Unfortunately, this piece was a "one-of-a-kind." Another way to determine value is to estimate how much other developers could afford to pay for the land. Because of Consolidated's combination of expertise and experience, the firm could borrow at lower rates; better control its development costs; and operate the building more efficiently. It was reasonable to assume most other local developers would have to pay less for the land; however, the team was concerned about larger, regional developers with even more competitive advantages. Therefore, nothing was certain until the auction ended. They had to be prepared.

Appendix I: Competition & Retail

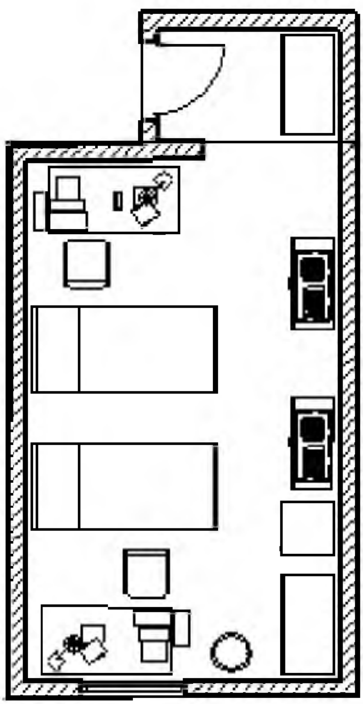
Notes:
Ground floor retail is identified in black
Crosshatch indicates property line of proposed property

Appendix II: Typical on-campus undergraduate housing

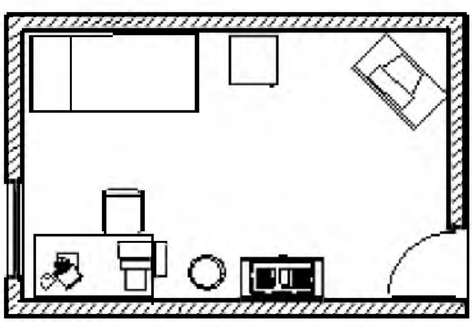
General Description

- ✓ Room arrangement: rooms on a central hall
- ✓ Typical Furniture (per person): extra long twin bed, desk, desk lamp, desk chair, dresser, book case, waste basket, closet or wardrobe
- ✓ Room sizes:
  - o Single:
    - ▪ 15'0" * 9'0"
  - o Double:
    - ▪ 20'0" * 10'0"
- ✓ Facility Amenities
  - o TV/social lounge, piano, laundry, elevators, kitchen, computer networking, study lounge

Typical Floor Plans



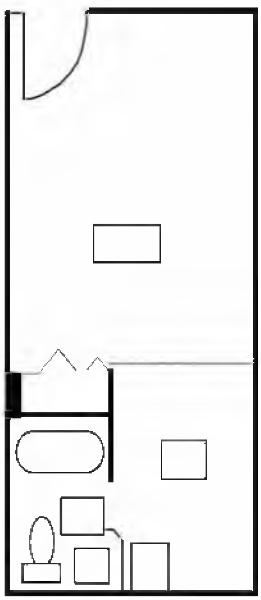
Double-Bed Room



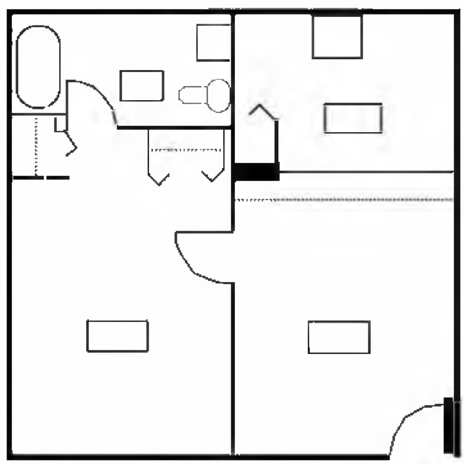
Single-Bed Room

Appendix III: Typical on-campus graduate housing Floor Plans

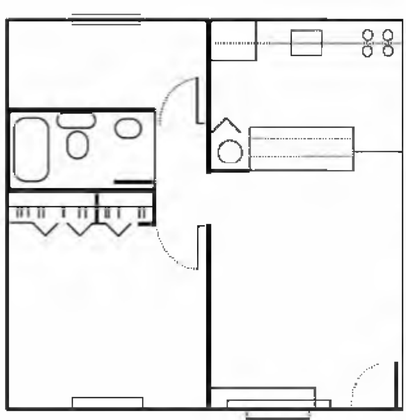
Studio



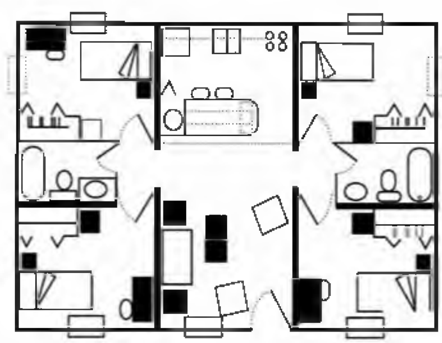
One Bedroom Without Study



One Bedroom With Study



4 Bedroom Shared Apartment



Appendix IV: On-Campus Graduate Housing Services

On-site service center

- ✓ Change (for laundry, vending, copying, etc.)
- ✓ Stamps
- ✓ Mail scale
- ✓ Outgoing U.S. mail
- ✓ Outgoing & incoming campus mail
- ✓ Coin copy machine
- ✓ Linen exchange (for single students w/linen contracts)
- ✓ Cleaning supplies
- ✓ Vacuum cleaner loan
- ✓ Light bulbs
- ✓ Storage
- ✓ Packing boxes
- ✓ VCR rental

On-site maintenance & housekeeping

- ✓ Cleaning of all community spaces & laundries
- ✓ Cleaning of residence hall bathrooms & kitchens

Live-in student staff

- ✓ Social, recreational and cultural programs for residents
- ✓ After-hours assistance 7 days/week
- ✓ Monthly newsletter for each housing area
- ✓ Assistance and advice about individual, households and community concerns

On-site laundry facilities, vending machines & pay phones

Community center or community space for resident use (free)

- ✓ Parties, events, etc.
- ✓ Studying
- ✓ Group meetings

Transportation services

- ✓ On-site parking

University Police

- ✓ 24 hours/day, 365 days/year
- ✓ Blue Light Services (phones, escorts, free evening buses)

Appendix V: Unit Mixes for Competition

Appendix V: Unit Mixes for Competition

	Court	Candlelight	Plaza	Egan	Fort
Studio	26	0	41	4	119
1 Bedroom	2	4	2	0	14
2 Bedroom	0	27	12	0	20
3 Bedroom	4	31	1	6	0
4 Bedroom	8	0	10	6	0
5 Bedroom	8	1	2	4	0
6 Bedroom	0	0	17	6	0
Total Units	48	63	85	26	153
Total Beds	112	156	222	102	173

Appendix VI: Amenities & Services for Competition

Fort Road Apartments

- ✓ On-site laundry facilities
- ✓ Buzzer/Intercom security system
- ✓ On-site leasing office
- ✓ Concierge/Doorman
- ✓ Dishwasher
- ✓ Wall-to-wall carpeting
- ✓ Microwave
- ✓ Scenic views

Collegecenter Court

- ✓ Buzzer/Intercom security system
- ✓ Dishwasher
- ✓ Wall-to-wall carpeting
- ✓ Microwave

Collegecenter Plaza

- ✓ On-site laundry facilities
- ✓ Buzzer/Intercom security system
- ✓ On-site leasing office
- ✓ Dishwasher
- ✓ Wall-to-wall carpeting
- ✓ Microwave
- ✓ Scenic views

Egan House

- ✓ On-site laundry facilities
- ✓ Buzzer/Intercom security system
- ✓ On-site leasing office
- ✓ Dishwasher
- ✓ Wall-to-wall carpeting
- ✓ Scenic views

Candlelight Park Apartments

- ✓ On-site laundry facilities
- ✓ Buzzer/Intercom security system
- ✓ Vending machines
- ✓ Concierge/Doorman
- ✓ Dishwasher
- ✓ Wall-to-wall carpeting
- ✓ Scenic views

Appendix VII: Floor Plans of Competition

3-Bedroom: Court

2-Bedroom: Fort

2-Bedroom: Plaza

1-Bedroom: Court

Appendix VIII: Proposed Amenities & Services 118 Fort Road

Living / Sleeping / Dining Area(s)

- ✓ All apartments designed & constructed to reduce noise transmission.
- ✓ Separately-keyed bedroom doors maximize privacy
- ✓ Fully furnished to high standards of comfort, function, and design
- ✓ Resident controlled, individually zoned, air conditioning
- ✓ Resident controlled, quiet, comfortable, individually zoned baseboard heat.
- ✓ Hardwood flooring throughout
- ✓ Fully wired for Phone/Fax/ Internet Access/Cable TV allowing multi-line service within each apartment
- ✓ Window blinds in each apartment

Baths

- ✓ Expansive vanity counter surfaces and shelving for personal care items
- ✓ Incandescent lighting for more natural illumination
- ✓ Full size fiberglass tub/shower enclosure

Building

- ✓ Full service staffing available 24 hours/day
- ✓ Two elevators serving each floor for greater speed and convenience
- ✓ 'Easy-Pass' Proximity Reader Building Access System
- ✓ Controlled Access 'Easy Pass' Garage parking (available at additional cost)
- ✓ Multi-Function Amenity Rooms include:

Professionally Equipped Fitness Center
Professionally Equipped Multi-Media Theater
Vending & Lounge
Group & Individual Study
Sauna and Steam Room

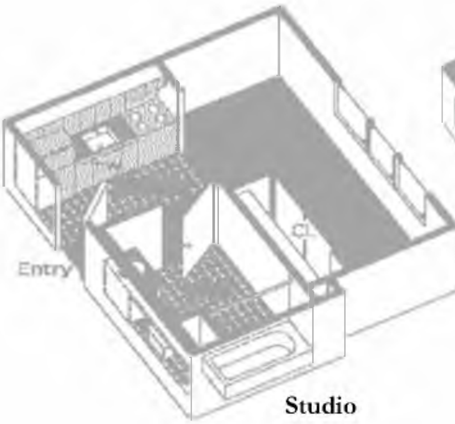
- ✓ Bicycle Storage
- ✓ Guest entry announcement (intercom) system
- ✓ Large window area for spectacular views
- ✓ Contemporary lobby design
- ✓ Centralized Mailroom

Kitchens

- ✓ Euro-style kitchen cabinets
- ✓ Ample cabinet space and counter surface area
- ✓ Refrigerator: Full size, Frost free, General Electric *
- ✓ Dishwasher: Full size, Multi-cycle, General Electric
- ✓ Cooking Range and Vent hood
- ✓ Microwave Oven: General Electric, .7cu. ft.
- ✓ In-sink disposal**

* 12 cu. ft. / studio: 14 cu. ft. / 1 & 2 bedroom: 16 cu. ft. / 3 bedroom
**not available in select studios

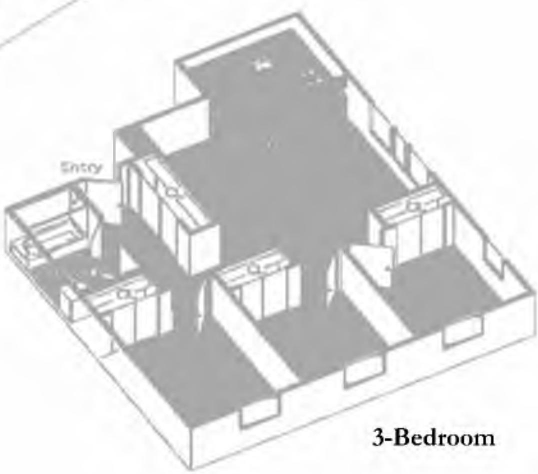
Appendix IX: Proposed Floor Plans
118 Fort Road



Studio

1-Bedroom

2-Bedroom



3-Bedroom

Project	**118 Fort Road**							
Prepared by	William Mack							
Date	1-Jul-98							
FINANCIAL PROJECTIONS:10 YR DCF			Aug-98	Aug-99	Aug-00	Aug-01	Aug-02	Aug-03
		Year 0	YR 1 Const.	YR 2 Const.	1	2	3	4
REVENUE COMPONENTS								
Apartment Revenue					$ 1,914,000	$ 1,971,420	$ 2,030,563	$ 2,091,479
Parking Revenue					$ 156,600	$ 161,298	$ 166,137	$ 171,121
Retail Revenue					$ 167,508	$ 172,533	$ 177,709	$ 183,041
Late Fees & Other Revenue					$ 95,700	$ 98,571	$ 101,528	$ 104,574
POTENTIAL GROSS INCOME (PGI)					$ 2,333,808	$ 2,403,822	$ 2,475,937	$ 2,550,215
Vacancy & Collection Loss					$ (70,014)	$ (72,115)	$ (74,278)	$ (76,506)
EFFECTIVE GROSS INCOME (EGI)					$ 2,263,794	$ 2,331,708	$ 2,401,659	$ 2,473,709
Management Fee	5.00%				$ 113,190			
Administration	4.10%				$ 92,816			
Payroll & Benefits	10.60%				$ 239,962			
Maintenance	12.55%				$ 284,106			
Total Utilities	7.00%				$ 158,466			
Insurance	2.00%				$ 45,276			
Real Estate Taxes	1.75%				$ 39,616			
OPERATING EXPENSES					$ (905,518)	$ (932,683)	$ (960,664)	$ (989,483)
NET OPERATING INCOME (NOI)					$ 1,358,276	$ 1,399,025	$ 1,440,995	$ 1,484,225
Capital Expenditure Reserve					*$ (70,014)*	*$ (72,115)*	*$ (74,278)*	*$ (76,506)*
CASH FLOW BEFORE FINANCING					$ 1,288,262	$ 1,326,910	$ 1,366,717	$ 1,407,719
BEFORE FINANCING ANALYSIS								
Development Cost								
Total Development Cost Excluding Land	$ 11,177,445		$ (5,588,723)	$ (5,588,723)				
Land Bidding Price		**$ (2,000,000)**						
Reversion Value								
Selling Expenses @ 4%								
Net Selling Proceeds								
CASH FLOW BEFORE FINANCING		$ (2,000,000)	$ (5,588,723)	$ (5,588,723)	$ 1,288,262	$ 1,326,910	$ 1,366,717	$ 1,407,719
RETURN ON INVESTMENT (ROI)	**12.39%**							
AFTER FINANCING ANALYSIS								
Property Value Upon Completion	$16,978,453							
Permanent Loan Amount				$ 13,582,000				
Construction Loan Amount				$ 11,177,445				
Remaining Cash (1)				$ 2,404,555				
Debt Service			$ (279,436)	$ (838,308)	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)
Remaining Mortgage Balance								
CASH FLOW AFTER FINANCING		$ (2,000,000)	$ (279,436)	$ 1,566,246	$ 30,325	$ 68,973	$ 108,780	$ 149,782
RETURN ON EQUITY (ROE)	**22.91%**							
	>	20.00%	OK					

(1) Refers to the cash remaining after the permanent loan replaces the construction loan

FINANCIAL PROJECTIONS:10 YR DCF (CONTINTUED)

REVENUE COMPONENTS	Aug-04	Aug-05	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10
Apartment Revenue	5	6	7	8	9	10	11
Parking Revenue							
Retail Revenue	$ 2,154,224	$ 2,218,851	$ 2,285,416	$ 2,353,979	$ 2,424,598	$ 2,497,336	$ 2,572,256
Late Fees & Other Revenue	$ 176,255	$ 181,542	$ 186,989	$ 192,598	$ 198,376	$ 204,327	$ 210,457
POTENTIAL GROSS INCOME (PGI)	$ 188,532	$ 194,188	$ 200,013	$ 206,014	$ 212,194	$ 218,560	$ 225,117
Vacancy & Collection Loss	$ 107,711	$ 110,943	$ 114,271	$ 117,699	$ 121,230	$ 124,867	$ 128,613
EFFECTIVE GROSS INCOME (EGI)	$ 2,626,721	$ 2,705,523	$ 2,786,689	$ 2,870,289	$ 2,956,398	$ 3,045,090	$ 3,136,443
	$ (78,802)	$ (81,166)	$ (83,601)	$ (86,109)	$ (88,692)	$ (91,353)	$ (94,093)
Management Fee	$ 2,547,920	$ 2,624,357	$ 2,703,088	$ 2,784,181	$ 2,867,706	$ 2,953,737	$ 3,042,350
Administration							
Payroll & Benefits							
Maintenance							
Total Utilities							
Insurance							
Real Estate Taxes							
OPERATING EXPENSES							
NET OPERATING INCOME (NOI)	$ (1,019,168)	$ (1,049,743)	$ (1,081,235)	$ (1,113,672)	$ (1,147,082)	$ (1,181,495)	$ (1,216,940)
Capital Expenditure Reserve							
CASH FLOW BEFORE FINANCING	$ 1,528,752	$ 1,574,614	$ 1,621,853	$ 1,670,508	$ 1,720,624	$ 1,772,242	$ 1,825,410
	$ (78,802)	*$ (81,166)*	*$ (83,601)*	*$ (86,109)*	*$ (88,692)*	*$ (91,353)*	*$ (94,093)*
BEFORE FINANCING ANALYSIS	$ 1,449,950	$ 1,493,449	$ 1,538,252	$ 1,584,400	$ 1,631,932	$ 1,680,890	$ 1,731,316
Development Cost							
Total Development Cost Excluding Land							
Land Bidding Price							
Reversion Value							
Selling Expenses @ 4%							
Net Selling Proceeds						$ 21,475,408	
CASH FLOW BEFORE FINANCING						$ (859,016)	
RETURN ON INVESTMENT (ROI)						$ 20,616,392	
	$ 1,449,950	$ 1,493,449	$ 1,538,252	$ 1,584,400	$ 1,631,932	$ 22,297,282	
AFTER FINANCING ANALYSIS							
Property Value Upon Completion							
Permanent Loan Amount							
Construction Loan Amount							
Remaining Cash (1)							
Debt Service							
Remaining Mortgage Balance							
CASH FLOW AFTER FINANCING	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)	$ (1,257,937)	
						$ (10,969,272)	
	$ 192,013	$ 235,512	$ 280,315	$ 326,463	$ 373,995	$ 10,070,073	

Appendix X: Financial Projections (Continued)

Apartment		Rent	Revenue
Unit Type	Units	Monthly	Per Year
Studio	33	$900	$356,400
1-Bed	42	$1,250	$630,000
2-Bed	16	$1,550	$297,600
3-Bed	30	$1,750	$630,000
Total	121		**$1,914,000**
Parking		**Rent**	**Revenue**
Total Spaces		Monthly	Per Year
87		$150	**$156,600**
Retail		**Rent**	**Revenue**
Total Area (sf)		Rent /sf/yr	Per Year
6,204		$27	**$167,508**

General	
Expected Inflation	3.00%
General Rent Increase	3.00%
Late Fees & Other Income (% of PGI)	5.00%
Vacancy & Collection Loss	3.00%
Operation Efficiency	60.00%
Capital Expenditure Reserve	3.00%
Development Period (YRs)	2
Permanent Loan	
Loan Term (YRs)	10
Amortization Term (YRs)	25
Loan To Value Ratio (LTV)	80.00%
Mortgage Interest Rate	8.00%
Required Return on Equity	20.00%
Going-In Cap Rate	8.00%
Going-Out Cap Rate	8.50%
Construction Loan	
Mortgage Interest Rate (Interest Only)	10.00%
Amortization Term (YRs)	2
Loan To Cost Ratio (LTC)	100%

Development Cost			
Usage	**Area (sf)**	**$/sf**	**$**
Basement Parking	34,261	41.87	1,434,652
Apartment	112,375	83.00	9,327,125
Retail	6,204	67.00	415,668
Total Development Cost →			**$11,177,445**

Endnotes

[4] Units across the competition and the proposed units were comparable in size.

[5] Source: Fisher, Christy, "Off-campus living," American Demographics, November 1995, Vol. 17 Issue 11, p54

[6] Source: Fisher, Christy, "Off-campus living," American Demographics, November 1995, Vol. 17 Issue 11, p54

[7] Source: APPA - The Association of Higher Education Facilities Officers

[8] Floor area ratio is defined as the aggregate floor area, in square feet, of a building or project on a lot divided by the square foot area of the lot.

[9] Site coverage ratio can be calculated by dividing the ground floor area of a building by the total area of the site.

[10] An efficiency ratio is calculated as the difference between gross building area and the rentable square footage. For example, after removing needed square footage for common areas, elevator core, amenity rooms, and so forth, it is estimated that 70 percent will remain for actual apartment living space.

[11] A 485 square foot footprint means that 485 square feet of living space is allocated to each bed.

[12] Potential Gross Income is the total collectable rent—assuming no vacancy or collection loss.

[13] The income for an income-producing property after deducting losses for vacancy, collection and operating expenses. NOI is calculated before debt service and capital expenditure reserves.

[14] Capitalization Rate is a "tool" that is used to convert annual income into a property's value. The cap rate formula is commonly known as IRV, where I equals income, R equals Cap rate and V equals value. The formula is $I = R*V$ or $(I/R) = V$

[15] "Back of the Envelope" Residual Land Value Calculation is a quick valuation method used to determine the price of a piece of developable land. It is typically computed before financing assumptions to assure general business viability of the proposed investment.

[16] Return on Investment is calculated on a "free and clear" or unleveraged basis. It is a point in time measure that takes the income and divides it by the total investment.