



MJB Development Partners



600 McAllister St
San Francisco, California
Multi-Family Development Proposal
Brian Goggin, Jack Gerwick, and Mike Williamson

Executive Summary

MJB Development Partners is proud to present an exciting residential development opportunity at 600 McAllister Street for 98 rental apartment units. In this project proposal, we discuss the site, project details, a market analysis, and the project’s financial feasibility. We invite you to explore this one-of-a-kind investment opportunity in the heart of San Francisco.

1. Site Overview

600 McAllister Street is a 19,433 square foot site on the corner of Franklin and McAllister streets in the Hayes Valley neighborhood of San Francisco. Currently leased by the San Francisco Opera, the site serves as a surface parking lot for Opera employees. Given its size and location near key entertainment and employment nodes, the MJB team believes this site represents a one-of-a-kind opportunity to invest in a new multifamily rental apartment building. We propose that 600 McAllister hold up to 98 units—14 studios, 44 1-bedroom units, 32 2-bedroom units, and 8 3-bedrooms units—with 18 units reserved for families between 55% and 110% of the area median income.



Notes: Left: 600 McAllister facing northwest. Right: 600 McAllister facing west.

Located in the traditionally condo-heavy Hayes Valley neighborhood, 600 McAllister will have 5-minute walking access to some of San Francisco’s most iconic landmarks, such as City Hall, the San Francisco Performing Arts Center, and the Bill Graham Civic Auditorium (*see exhibit 1*). Although the nearby Western Addition neighborhood has historically been troubled with crime and poverty, a recent influx of investment and population have changed this perception, and many now view Hayes Valley as a destination neighborhood. The site is within easy walking access to the Hayes Valley commercial district, which is full of high-end restaurants, bars, and

boutique shopping. There are two main public open spaces—Jefferson Square Park and Civic Center Plaza—accessible within a 5-minute walk of the site.

The site’s central location also positions it along several public transportation lines: the 5 MUNI bus line that runs an east-west route along McAllister Street, the 47 and 49 bus north-south bus routes on Van Ness (soon to be Bus Rapid Transit), and a 10-minute walk to the MUNI rail lines and BART at the Civic Center station. In addition, the site has easy access to US-101 and I-80, allowing residents to commute to the Peninsula and East Bay while avoiding the majority of San Francisco street traffic. McAllister Street is also one of the rare north-south roads in the neighborhood that is two-way, which allows for easy access both heading south to leave the city and returning to the city on Franklin. While the accessibility to the freeways and great public transportation is significant, the corner itself does not represent a strong area for foot traffic. As such, 600 McAllister’s viability as a mixed-use property is limited.

Lastly, as a surface parking lot that only has a slight 5-degree slope, redevelopment of the site should not be significantly costly. Although leased to the San Francisco Opera, the site is owned by a private entity, Giannini Properties. Assuming that Giannini is willing to sell the site for a fair market price, we will offer to purchase the two parcels that make up the site.

2. Market Demand

By posting job growth that consistently outpaces new residential construction in the city, San Francisco has perennially high residential demand. This job growth shows no sign of slowing down as tech firms—notable Facebook and Dropbox—have recently signed some of the biggest office leases in the city’s history.¹ With a total job count that is approximately double the amount of households, the city’s employers rely on daily commuting from neighboring counties for workers.² This pattern has worn on commuters over the past few decades. Recent surveys have shown an unusually high regional preference for walkable communities near jobs and public transit.³ Although we may be nearing the end of the most recent market cycle in the city, this evidence suggests both that the boom may continue for a few years and that residential construction will perform well over the long-term.

¹ See <https://www.bizjournals.com/sanfrancisco/news/2017/10/11/sf-office-market-3q-dropbox-goog-krc.html>

² The Census Quarterly Workforce Indicator Report estimates approximately 720,000 jobs, about double the number of households.

³ <http://sf.uli.org/wp-content/uploads/sites/47/2011/05/Bay-Area-in-2015-final.pdf>

Within this context, our site occupies a great location to take advantage of booming job growth. Situated at the cusp of the Civic Center area, the site is within short walking distance of the epicenter of tenure-track local government jobs, which consistently post salaries from the \$80,000 to \$150,000 range. Moreover, the location has fantastic access to the Mid Market employment cluster, which includes the headquarters of prominent tech companies such as Uber, Square, Twitter, and Dolby (*see Exhibit 1*). Our project site offers proximity to these job centers while avoiding the noise and crowds on the main bustling corridors of Van Ness Avenue and Market Street. For this reason, we believe that our site will be ideal for young adult renters (25-40 years old) that value a quiet neighborhood feel at home.

2.1 Market Demographics

The existing demographics of San Francisco—and in particular, Hayes Valley—indicate that there will be a strong demand in housing from young adults both presently and in the coming years. Exhibit 3 (see appendix) shows that not only is there a high share of 30-40 year olds now, but there is also a large share of aging 20-29 year-olds that will sustain demand for this demographic into the foreseeable future. Moreover, these young adult households have a lot of disposable income (*see Exhibit 4*) and are much more likely to rent than to own (*see Exhibit 5*). As this group ages, they are likely to continue to rent for the foreseeable future due to the high cost of homeownership in San Francisco and the significant savings this requires.

2.2 Market Supply

Developers around San Francisco are stepping up to meet rising residential demand. Citywide, there are approximately 5,600 units under construction and another 15,000 that have planning entitlements. However, this is still likely not enough to meet annual demand as most of these buildings will be spread out over the next 5-10 years. Within a half-mile radius of our site there are approximately 680 units under construction and another 1,572 units that have received planning entitlements (*see attached pipeline report*).⁴ However, this supply is still not enough to keep up with the required demand, which by some estimates would require 71,000 units citywide—a long way from the 15,000 currently in the pipeline—by 2030.⁵

We believe that this dramatic demand-supply imbalance is enough to keep rental prices at the level of comparable projects (see below) for the foreseeable future. As evidence, San Francisco

⁴ From San Francisco Planning Department's Development Pipeline Map, created by Brian Goggin

⁵ *U.S. Apartment Demand: A Forward Look* (2017) Hoyt Advisory Services, Dinn Focused Marketing, and Whitegate Real Estate Advisors, LLC.

vacancy rates remain among the lowest in the country. Exhibit 6 shows that this vacancy rate has remained steadily under 5% over the past 5 years. Moreover, we feel that our Hayes Valley location—in a lively entertainment district separate from the majority of new supply along Market Street—is a unique trait that sets us apart from the competition. Via our interviews with a local developer, we are expecting a lease up rate of 25-30 units per month, which means it will take 3-4 months to reach stabilization.⁶

2.3 Rental Comparables: Part 1

| Address | Year | Units | Parking Spaces | Vacancy |
|--|------|-------|----------------|---------|
| Avalon Hayes Valley (Octavia and Oak Street) | 2015 | 182 | 87 | 2% |
| Venn on Market (1844 Market Street) | 2013 | 113 | 79 | 6% |
| Nema (Market and 10th Street) | 2014 | 754 | 550 | 1% |
| 100 Van Ness Avenue | 2015 | 418 | 112 | 3% |
| Argenta (Polk and Market Streets) | 2009 | 163 | 165 | 7% |
| Civic SF (Polk and Hayes Streets) | 2016 | 162 | 40 | 2% |
| 1190 Mission Street | 2013 | 418 | NA | 2% |
| Ava 55 Ninth Street | 2014 | 273 | 113 | 3% |
| Average | 2014 | 310 | 164 | 3% |

2.4 Rental Comparables: Part 2

| Address | Rents | | | | Rents Per SF | | | |
|--|-----------------|-----------------|-----------------|---------|--------------|-------------|-------------|-------|
| | Studio | 1 Bd | 2 Bd | 3 Bd | Studio | 1 Bd | 2 Bd | 3 Bd |
| Avalon Hayes Valley (Octavia and Oak Street) | \$3,075-\$3,170 | \$3,290-\$3,800 | \$4,425-\$5,465 | - | \$6.7-\$6.8 | \$5.1-\$6.2 | \$4.5-\$5.5 | - |
| Venn on Market (1844 Market Street) | - | \$3,125-\$3,760 | \$4,285-\$4,675 | \$6,050 | - | \$4.6-\$4.8 | \$4.5-\$4.9 | \$4.6 |
| Nema (Market and 10th Street) | \$3,105-\$3,535 | \$4,050-\$4,700 | \$5,775-\$6,465 | - | \$6.6-\$7.2 | \$4.9-\$5.4 | \$4.4-\$4.7 | - |
| 100 Van Ness Avenue | \$3,432-\$3,735 | \$3,937-\$4,750 | \$4,662-\$6,348 | - | \$7.4-\$8.1 | \$5.6-\$6.2 | \$5.5-\$5.6 | - |
| Argenta (Polk and Market Streets) | - | \$3,825-\$5,637 | \$4,338-\$8,018 | - | - | \$6.3-\$7.1 | \$4.6-\$5.9 | - |
| Civic SF (Polk and Hayes Streets) | - | \$3,300-\$3,895 | \$3,900-\$4,750 | - | - | \$6.2-\$6.4 | \$5.2-\$5.3 | - |
| 1190 Mission Street | \$2,463-\$2,583 | \$2,599-\$2,777 | \$3,299-\$3,455 | - | NA | NA | NA | - |
| Ava 55 Ninth Street | \$2,875-\$3,340 | \$3,110-\$3,324 | \$3,990-\$4,934 | - | \$5.0-\$5.7 | \$3.8-\$4.4 | \$4.3-\$4.7 | - |
| Average | \$3,131 | \$3,742 | \$4,924 | \$6,050 | \$6.7 | \$5.5 | \$5.0 | \$4.6 |

3. Entitlement Strategy

San Francisco is a notoriously difficult market in which to secure entitlements. However, after identifying the highest risks for entitlement at 600 McAllister, we have crafted a strategy to effectively navigate the process. This strategy consists of 1) staying within the existing zoning constraints of the site, 2) building affordable units on site, and 3) meeting with specific neighboring groups that are likely to oppose the project.

First, staying within the existing zoning constraints will allow us to avoid proposing any variances or general plan amendments, which require additional review by the Planning

⁶ Interview with Nora Collins, Development Manager at Avalon Communities

Commission or Board of Supervisors (up to a year or more of delays). This additional review also allows more opportunity for neighbors to file complaints about or appeal a project.

Second, although the NCT-3 zone of the project does not require retail or commercial uses on the ground floor, the city generally likes to activate the street with these uses. However, because our site lacks the pedestrian traffic of the nearby Van Ness Avenue or Hayes Valley shopping districts, we have opted for parking and a residential lobby on the first floor instead. In order to make up for this, we have decided to build all of our below market rate units—as required by the inclusionary zoning ordinance—on-site rather than paying the optional in-lieu fee. Although we are staying within the zoning restrictions, the city has the power to approve or deny our project under conditional use authorization (see below), and this concession should help immensely.

Third, there are a few specific parties that are likely to be upset about the project. The Hayes Valley Neighborhood Association (HVNA) has been a vocal opponent of projects that include too much parking for fears of increased traffic. For example, HVNA recently appealed a nearby condominium project to the Board of Supervisors for seeking conditional approval to exceed their allowed parking ratio.⁷ In order to avoid this fate, 600 McAllister will have far less than the allowable allowed 0.5:1 parking ratio on the site. We should also proactively reach out to the HVNA to discuss any other concerns. We also expect to receive pushback from the San Francisco Opera due to the loss of their parking. In order to address their concerns, we would be willing to consider paying a parking remission fee for Opera employees in exchange for their cooperation in the entitlement process. The maximum annual amount that we would be willing to pay to stay within our profit targets is approximately \$200,000 per year, which could accommodate about 50 employees annually.⁸

Moreover, part of our development would rise to 80-85 feet tall, putting the views of a neighboring affordable housing development at risk and threatening shadows on a basketball court and outdoor area for the neighboring public high school (*see exhibit 2*). In order to preempt these possible concerns, we would reach out to both of these parties in separate meetings. In these meetings, we will take the position that we have the right to build up to the allowed height but would be willing to negotiate some setbacks to our massing above the ground floor in exchange for no opposition.

⁷ <https://sf.curbed.com/2017/9/27/16373152/one-oak-parking-housing-sf>

⁸ Assumes an average parking rate of \$350 per month.

Despite avoiding some planning hurdles by staying within the zoning constraints, we still expect a lengthy entitlement process that will take a minimum of 24 months. The first step in this process is to submit a preliminary project assessment (PPA) that allows for preliminary review and feedback before official applications are submitted. After submitting the PPA, we will engage in the community outreach process with the Hayes Valley Neighborhood Association, the neighboring Civic Center High School, the Mary Helen Rogers Senior Community Center, and in general public meetings. We expect that this preliminary project review and community outreach process will take approximately 1 year. While we do anticipate that the feedback from this process will have a small impact on the scope and design of the project, it will also likely prevent future appeals to the Board of Supervisors or the courts.

After the PPA and community outreach process, we will submit an official project application to the Planning Department, who will review it both for compliance with zoning and the California Environmental Quality Act (CEQA). Despite meeting zoning requirements, we will still need a public hearing under “conditional use authorization”, in which the Planning Commission has the authority to determine, in their judgment, whether the project is “necessary or desirable to the neighborhood.”⁹ While it is not common for the Commission to reject zoning-compliant projects, any review by the Commission is a risk, and so we feel that building affordable units on-site is critical for lowering this risk. As for the CEQA review process, our project falls within the Market and Octavia Area Plan, which already has a pre-approved environmental impact report for the entire area, allowing for streamlined approval. Altogether, we are optimistic that we could receive entitlements for the project within 18-24 months, about half of which would be taken up by community outreach.

4. Project Functionality and Design

Exhibit 7 in the appendix provides 600 McAllister’s potential floor plan. Due to our concerns about ground floor retail, we have proposed a combination of apartment common space and parking on the first floor. This also allows us to avoid incurring significant costs of excavation for underground parking. Floors 2-8 will be allocated to rental units, with the building’s gross square footage shrinking above the 5th floor due to height restrictions.

⁹ <http://sf-planning.org/sites/default/files/FileCenter/Documents/481-CU%20Application.pdf>

In determining the unit mix for the building, we opted for a healthy mix of unit types: 14 studios, 44 one bedroom, 32 two bedroom, and 8 three bedroom units. As our target demographic is young urban professionals, who typically either have several roommates to split costs or opt for small solitary units by themselves, we decided on a diverse unit mix to appeal to all potential renters. In each case, we opted for fairly large square footages in each category, as open floor plans with wide common spaces are generally more marketable (*see exhibit 8*).

To accompany these units, we have only proposed 35 ground floor parking spaces, which amounts to a parking ratio of 0.36 spaces per unit. There are several reasons why we chose to build so few parking spaces. First, this low amount of spaces is attractive from an entitlement perspective, as discussed above. Second, car ownership in San Francisco has been trending downward, with the number of households without a car increasing from 29% in 2000 to 31% in 2012.¹⁰ With the rise of car sharing technology, this trend is likely to continue into the future. Third, given that our site is not on a busy retail corridor, the opportunity cost of foregone ground floor retail is not that high. Ultimately, this low parking ratio reflects the urban nature of the neighborhood, the existing comparable rental projects, and the expected long-term trend of declining car ownership.

4.1 Common Amenities

Based on our review of comparable rental properties, there are a number of common amenities that 600 McAllister will include in order to stay competitive in the market.

- **Security and Maintenance:** Based on our review of comparable rental projects, it is absolutely necessary to have a 24-hour front desk staff and swipe access to the building. Moreover, an online maintenance request system with 24-48 hours is preferred.
- **24-Hour Package Lockers:** Package receipt and security is a critical component of modern-day apartment living. Moreover, based on the rise of online shopping, we predict that this necessity will only increase in importance. We have allocated a few thousand square feet to this use in our proposed floor plan (*see exhibit 7*).
- **Fitness Center:** Given the increasing fitness trends in today's society—particularly among young professional—a fitness center is a needed amenity in today's market. Therefore, we have proposed a 1,132 square foot gym on the ground floor of the property (*see exhibit 7*).

¹⁰ <https://sf.streetsblog.org/2014/08/15/car-free-households-are-booming-in-san-francisco/>

- Sky Terrace: Not only is this necessary to meet the planning code’s 100 square feet per unit common space requirement, it is a great competitive edge in a densely built-out city.
- On-Site Bike Parking: As automobile ownership declines and bike use increases in high-cost urban markets nationwide, bike parking and storage are wise investments. We have proposed 2,376 square footage of bike parking on the ground floor, more than enough to house a bike for every unit (*see exhibit 7*).



Sky terrace at nearby Avalon Hayes Valley. The McAllister SF’s sky terrace will have a similarly spectacular view with a shot at City Hall’s dome.

5. Financial Feasibility

The proposed rental project generates a healthy 30% unleveraged profit margin and 5.7% return on cost (*see exhibit 14*). This is mostly due to high market rents, high capitalization rates in San Francisco, and avoiding expensive underground parking. Because of these healthy returns, we felt satisfied that it was not worth the extra risk to propose condominium units. Although condos would likely yield higher returns, they would be much riskier for a number of reasons. First, the site only allows for a 0.5 parking-to-unit ratio, which is low for for-sale units. Secondly, condo returns are particularly sensitive to interest rates, which are likely to increase in the next 2-3 years when our building would be opening. Lastly, the competition for condos in Hayes Valley is much fiercer than the rental market, which has largely centered around Market Street instead. With the right marketing, this location offers us a competitive advantage in the rental market.

Exhibits 11 shows the estimated costs of the project, which come out to about \$52 million dollars, or \$410 per square foot. The tables below show variation in financial returns based on this per square foot cost (e.g. in the case of cost overruns). Income for the project is generated from 3 different sources—market rent, affordable rent, and parking. Exhibit 12 shows the sources and assumptions for project rents, which average \$5.34 per square foot for market rate units, \$2.05 per square foot for affordable units, and \$375 per month for parking. Overall, the capitalized value of this stream of revenue is approximately \$74 million.

Despite this optimistic outlook, there are several threats to the project’s healthy financial returns. The tables below illustrate the sensitivity of our leveraged internal rate of return based on variation on a number of variables. First, a 50 basis point increase in the capitalization rate would lower the IRR to almost 15%, threatening the ability to attract private capital to the project. Moreover, rising interest rates similarly threaten a few percentage point drop in returns. Therefore, it is critical to have a timely execution of the project before interest rates increase and the market cools off. Another reason that it is critical to keep the project on time is so that we beat competition to the market. As mentioned earlier, there are a few thousand units in the pipeline, and the table below shows that even a 10% decrease in the rental income threatens to drop our returns below 15%. Finally, our returns decrease by a few percentage points as a result of cost overruns, so on-budget execution is vital.

5.1 Sensitivity in Leveraged IRR

| | | Cap Rate | | |
|---------------|------|----------|-------|-------|
| | | 3.4% | 3.9% | 4.4% |
| Interest Rate | 5.0% | 21.6% | 19.5% | 17.6% |
| | 6.0% | 20.8% | 18.6% | 16.7% |
| | 7.0% | 19.9% | 17.7% | 15.8% |

| | | Project Cost (\$/sf) | | |
|--------------------------|--------|----------------------|-------|-------|
| | | 350 | 400 | 450 |
| Rental Income (% Change) | -10.0% | 19.3% | 16.0% | 13.0% |
| | 0.0% | 21.9% | 18.6% | 15.7% |
| | 10.0% | 24.2% | 21.0% | 18.1% |

Despite these risks, the sensitivity analysis above shows that the returns remain healthy under many different scenarios. As described in the market analysis above, we are confident that a healthy San Francisco market will help us reach these returns. To finance the project, we anticipate using a mix of debt and equity. We anticipate the project will require a minimum of 40% of cost to be contributed by private equity. The remaining 60% of cost will come in the form of debt, which we anticipate can be obtained with a 6% fixed interest rate. Exhibit 17 combines debt payments with cash flows to estimate IRRs for the project.

6. Marketing Plan

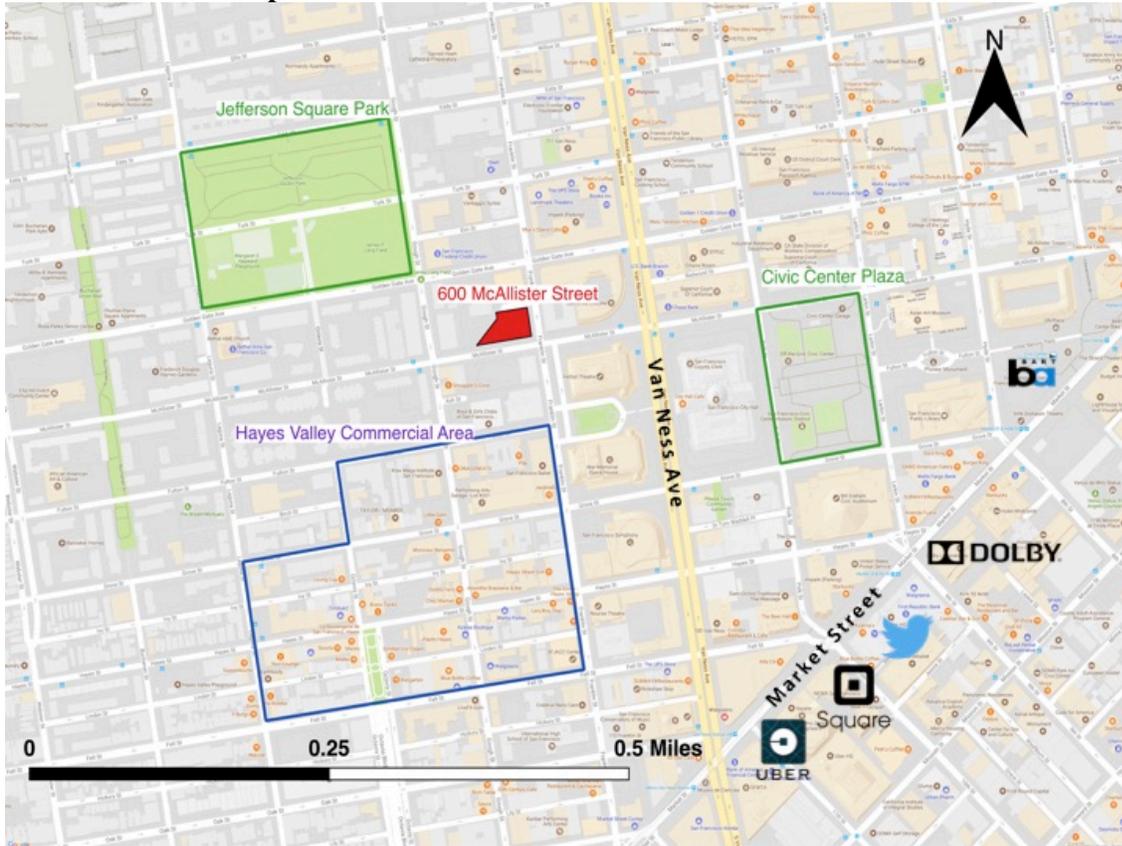
The overall marketing strategy for 600 McAllister will be based upon our target demographic— young, urban professionals. To attract this demographic, we will focus on four key attractions of 600 McAllister: 1) location in Hayes Valley 2) distance to downtown and transportation corridors 3) streamlined luxury and 4) proximity to the arts and City Hall.

First, Hayes Valley has a plethora of bars, restaurants, and shops that play host to both daytime shopping and nightlife. Using street scenes—of nearby Chez Maman or Biergarten, for example—in marketing materials will illustrate the vibrancy of the area for potential renters.

Second, while our location is in a prime position next to employment and transportation centers, its location nestled in Hayes Valley gives it geographic separation from busy transportation corridors. Therefore, we intend to emphasize the neighborhood feel of the site in addition to its location near employment centers. Within the units, our message will center on streamlined luxury: modern units without unnecessary frills. Finally, our location near Civic Center puts us at the center of arts and politics in the city. We intend to emphasize proximity to regular art exhibits, music concerts, and public events to highlight this key advantage. Overall, this marketing strategy focuses on highlighting the neighborhood’s amenities rather than the amenities within the building, as our location is 600 McAllister’s greatest competitive advantage.

Appendix: Exhibits

Exhibit 1. Area Map



Notes: Tech firm headquarters along Market Street include: Uber, Square, Twitter and Dolby.

Exhibit 2. Site Overview

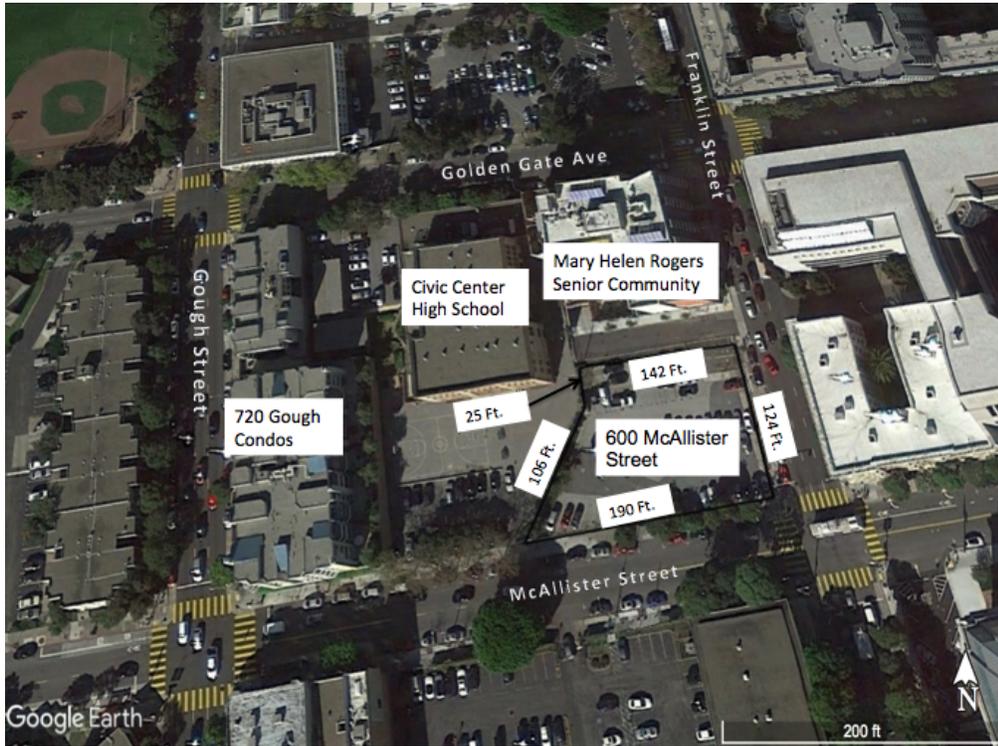
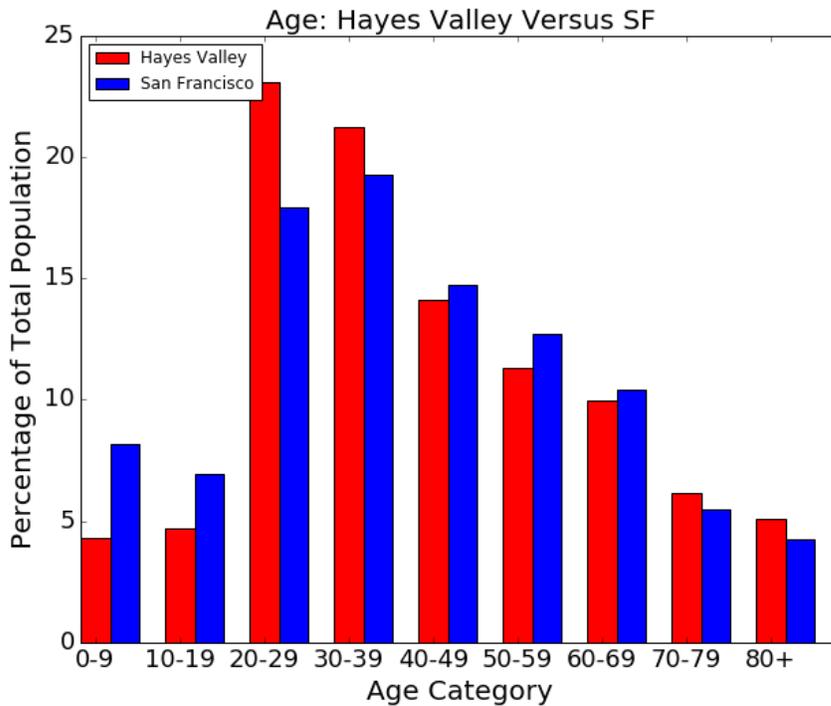
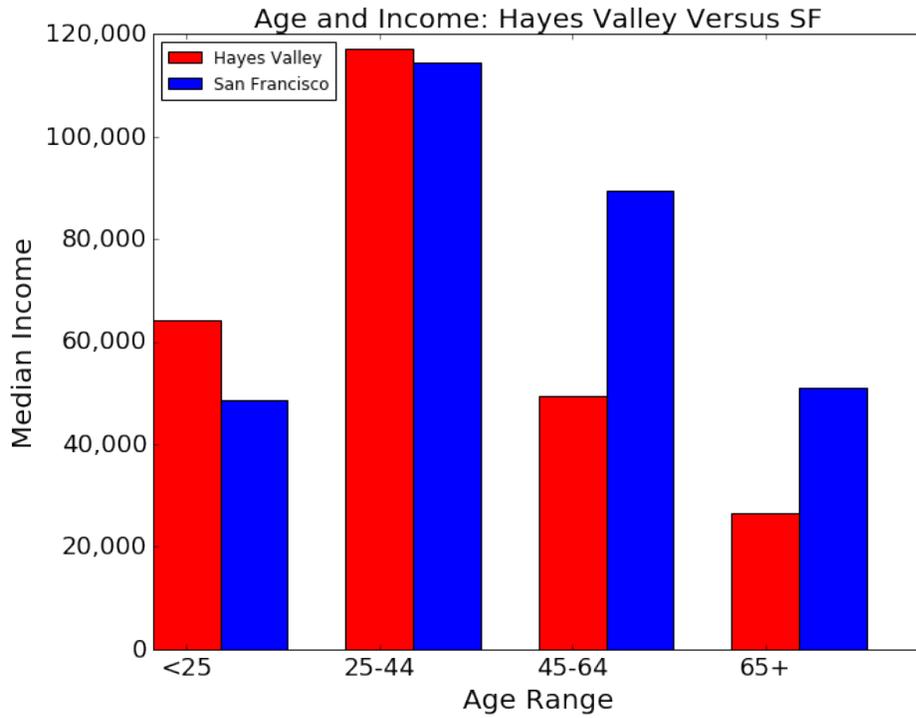


Exhibit 3. Area Age Histogram



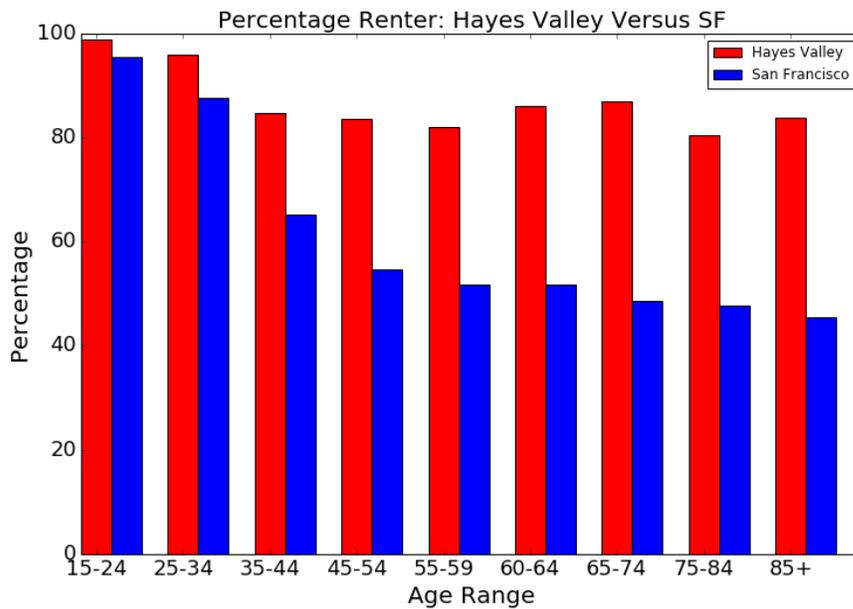
Notes: Data comes from 2011-2015 ACS 5-year estimates, table B01001.

Exhibit 4. Area Age and Income



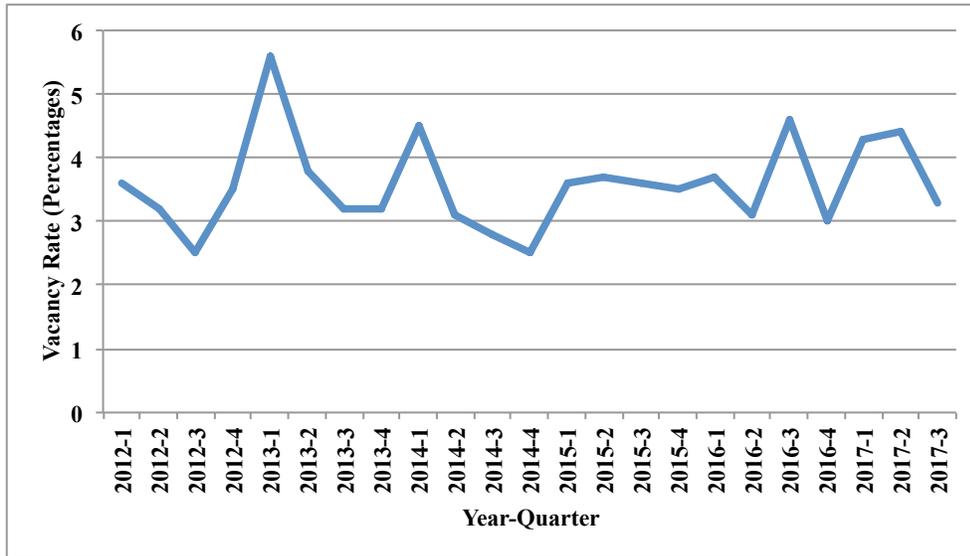
Notes: Data comes from 2011-2015 ACS 5-year estimates, table B19001.

Exhibit 5. Area Age and Occupancy



Notes: Data comes from 2011-2015 ACS 5-year estimates, table B25007.

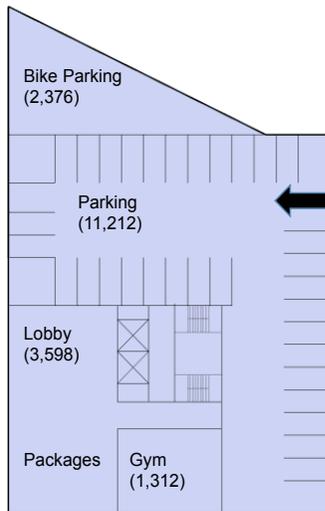
Exhibit 6. SF Metro Vacancy Rates: 2012-2017



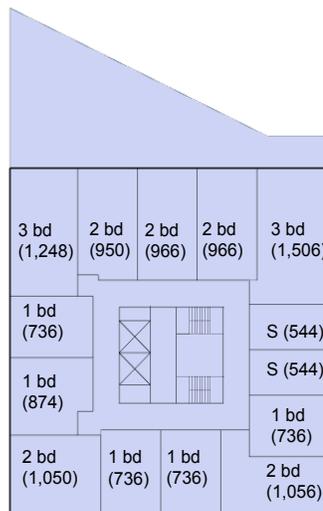
Notes: Data comes from US Census Bureau’s Housing Survey

Exhibit 7. 600 McAllister Floor Plan

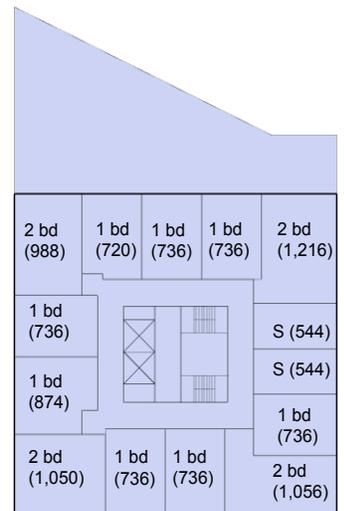
Ground Floor



Floors 2-5



Floors 6-8



Note: Square footages are in parentheses.

Exhibit 8. Example Unit Floor Plan



Note: From Venn on Market, a comparable project. Similar to the type of 2-bedroom we would propose.

Exhibit 9. Comparable Land Costs

| Address | Acres | Square Footage | Price | \$/sq ft |
|------------------------|-------|----------------|-------------|----------|
| 198 Valencia Street | 0.21 | 9,148 | \$9,250,000 | \$1,011 |
| 256 Bemis Street | 0.12 | 5,227 | \$2,988,000 | \$572 |
| 2435 16th Street | 0.46 | 20,038 | \$9,995,000 | \$499 |
| 227 Church Street | 0.07 | 3,049 | \$2,450,000 | \$803 |
| 284 Roosevelt Way | 0.07 | 3,049 | \$1,799,000 | \$590 |
| 562 28th Street | 0.11 | 4,792 | \$2,199,000 | \$459 |
| 1791 Mission Street | 0.05 | 2,178 | \$1,200,000 | \$551 |
| 2175 Hayes Street | 0.09 | 3,920 | \$1,995,000 | \$509 |
| 300-350 Octavia Street | 0.1 | 4,356 | \$300,000 | \$69 |
| 1234 Shoreline Hwy | 0.18 | 7,841 | \$225,000 | \$29 |
| 81 Ervine Street | 0.05 | 2,178 | \$495,000 | \$227 |
| Median | 0.1 | 4,356 | \$1,995,000 | \$509 |

Exhibit 10. 600 McAllister Site Details

| Metric | Number | Notes |
|--------------------------|---------|-------------------------|
| Land Area | 19,433 | |
| Number of Floors | 8 | 85-X height limit |
| Building SF | 126,728 | |
| Average Rental Unit Size | 799 | |
| Total Rental Units | 98 | |
| Parking Ratio | 0.36 | |
| Number of Parking Spaces | 35 | |
| Square Footage per Stall | 153 | Space size of 18'X 8'6" |
| Total Parking SF | 5,355 | |

Exhibit 11. Project Costs

| Metric | Number | Notes |
|-------------------------------|--------------|---|
| Total Land Value | \$9,872,207 | Median value from sales listings in San Francisco from Loopnet |
| Hard Costs Minus Parking | \$29,400,000 | Estimate (\$300k per door) from Dev Manager, Avalon Bay. Concrete construction. |
| Parking Cost Per Stall | \$20,000 | Estimate from Development Manager, from Avalon Bay |
| Parking Costs | \$700,000 | |
| Total Hard Costs | \$30,100,000 | |
| Hard Costs per Building SF | \$237.52 | |
| Soft Costs | \$12,040,000 | 40% of hard, including interest |
| Total Costs | \$52,012,207 | |
| Project Costs per Building SF | \$410 | |
| Project Costs per Unit | \$530,737 | |

Exhibit 12. Project Rental Incomes

| Market Rate | Rent | Number | Total | Notes |
|-------------------------------------|---------|--------|--------------------|--------------------------------|
| Studios | \$3,131 | 11 | \$34,441 | Average of Comparable projects |
| 1 Bedroom | \$3,742 | 36 | \$134,712 | Average of Comparable projects |
| 2 Bedrooms | \$4,924 | 26 | \$128,024 | Average of Comparable projects |
| 3 Bedrooms | \$6,050 | 7 | \$42,350 | Average of Comparable projects |
| Total | | | \$4,074,324 | |
| Average Market Rent per Square Foot | \$5.35 | | | |

| | |
|--------------------|-------------|
| Area median Income | \$92,250 |
| Rent at 55% AMI | \$15,221.25 |
| Rent at 80% AMI | \$22,140.0 |
| Rent at 110% AMI | \$30,442.50 |

Assumes family size of 2. Source: SFMOHCD

| Below Market Rate Units | 55% AMI | 80% AMI | 110% AMI | Rent at 55% | Rent at 80% | Rent at 110% | Total |
|---|-----------|----------|----------|------------------|-----------------|------------------|------------------|
| Studio | 1 | 1 | 1 | \$15,221 | \$22,140 | \$30,443 | \$67,804 |
| 1 BR | 6 | 1 | 1 | \$91,328 | \$22,140 | \$30,443 | \$143,910 |
| 2 BR | 3 | 1 | 2 | \$45,664 | \$22,140 | \$60,885 | \$128,689 |
| 3 BR | 0 | 1 | 0 | \$0 | \$22,140 | \$0 | \$22,140 |
| Total | 10 | 4 | 4 | \$152,213 | \$88,560 | \$121,770 | \$362,543 |
| Average Affordable Rent per Square Foot | \$2.05 | | | | | | |

Source for unit allocation: SF Planning Department

Exhibit 13. Financial Assumptions

| Metric | Number | Notes |
|--|---------------|---------------------------------|
| Construction LTC | 60% | |
| Total Construction Loan Amount | \$30,304,324 | |
| Construction Loan Term | 18 Months | |
| Construction Loan Interest Rate | 6% | |
| Lease Up Period | 4 Months | Source: Dev Manager, Avalon Bay |

Exhibit 14. Project Valuation

| Rental Income | Number | Notes |
|------------------------|---------------------|-------------------------|
| Gross Market Rate | \$4,074,324 | |
| Market Vacancy | (\$122,230) | 3% |
| Market Rate | \$3,952,094 | |
| Gross Affordable | \$362,543 | |
| Affordable Vacancy | (\$10,876) | 3% |
| Affordable | \$351,666 | |
| Parking Income | \$157,500 | |
| Parking Vacancy | (\$4,725) | 3% |
| Total Parking | \$152,775 | |
| Effective Gross Rent | \$4,456,536 | |
| Operating Expenses | (\$1,559,787.43) | 35%, Source: Avalon Bay |
| Net Operating Incom | \$2,896,748 | |
| Valuation | | |
| Total Valuation | \$74,275,592 | 3.9% Cap Rate |
| Profit Margin | 30% | |
| Return on Cost | 5.57% | |

| Costs | Number | Notes |
|-------------------------|---------------------|------------------------|
| Land Costs | 19,433 | sf |
| | \$509 | \$/sf |
| | \$9,872,207 | total |
| Shell Costs | \$29,400,000 | |
| Parking Costs | \$700,000 | |
| Total Hard Costs | \$30,100,000 | |
| Soft Costs | \$12,040,000 | 40% Including Interest |
| Total Costs | \$52,012,207 | |
| Cost per SF | \$410 | |

Exhibit 15. Project Cash Flows

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|-----------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Potential Gross | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Market Rate | \$4,074,364 | \$4,196,595 | \$4,322,492 | \$4,452,167 | \$4,585,732 | \$4,723,304 | \$4,865,003 | \$5,010,953 | \$5,161,282 | \$5,316,120 | \$5,475,604 |
| Below Market | \$362,543 | \$373,419 | \$384,621 | \$396,160 | \$408,045 | \$420,286 | \$432,895 | \$445,882 | \$459,258 | \$473,036 | \$487,227 |
| Parking | \$225,600 | \$232,368 | \$239,339 | \$246,519 | \$253,915 | \$261,532 | \$269,378 | \$277,460 | \$285,783 | \$294,357 | \$303,188 |
| Vacancy | 100% | 63% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Market Rate | (\$4,074,364) | (\$2,654,346) | (\$129,675) | (\$133,565) | (\$137,572) | (\$141,699) | (\$145,950) | (\$150,329) | (\$154,838) | (\$159,484) | (\$164,268) |
| Below Market | (\$362,543) | (\$236,187) | (\$11,539) | (\$11,885) | (\$12,241) | (\$12,609) | (\$12,987) | (\$13,376) | (\$13,778) | (\$14,191) | (\$14,617) |
| Parking | (\$225,600) | (\$146,973) | (\$7,180) | (\$7,396) | (\$7,617) | (\$7,846) | (\$8,081) | (\$8,324) | (\$8,573) | (\$8,831) | (\$9,096) |
| Gross Revenue | \$0 | \$1,764,875 | \$4,798,059 | \$4,942,001 | \$5,090,261 | \$5,242,969 | \$5,400,258 | \$5,562,266 | \$5,729,134 | \$5,901,008 | \$6,078,038 |
| OpEx | \$0 | \$617,706 | \$1,679,321 | \$1,729,700 | \$1,781,591 | \$1,835,039 | \$1,890,090 | \$1,946,793 | \$2,005,197 | \$2,065,353 | \$2,127,313 |
| NOI | \$ - | \$ 1,147,169 | \$3,118,738 | \$3,212,301 | \$3,308,670 | \$3,407,930 | \$3,510,168 | \$3,615,473 | \$3,723,937 | \$3,835,655 | \$3,950,725 |

*Assumes a 4 month lease-up period & 3% rent growth

Exhibit 16. Project Debt and Loan Draws

| | |
|---------------------------|--------------|
| Levered Budget | \$51,300,479 |
| LTC | 60.0% |
| Rate | 6.00% |
| Loan Balance | 30,780,287 |
| Total Equity Contribution | 20,520,191 |

| Year | Total | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Construction Costs | \$50,507,207 | \$36,962,207 | \$13,545,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Interest Payment | \$11,174,527 | \$508,516 | \$1,431,925 | \$1,846,817 | \$1,846,817 | \$1,846,817 | \$1,846,817 | \$1,846,817 | \$1,846,817 | \$1,846,817 | \$923,409 |
| NOI Surplus | \$0 | \$0 | (\$1,147,169) | (\$3,118,738) | (\$3,212,301) | (\$3,308,670) | (\$3,407,930) | (\$3,510,168) | (\$3,615,473) | (\$3,723,937) | (\$3,835,655) |
| Funding Requirement | \$51,300,479 | \$37,470,723 | \$13,829,756 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Equity Contribution | \$20,520,191 | \$20,520,191 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1 | \$2 |
| Beg Loan Balance | \$0 | \$0 | \$16,950,531 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 |
| Loan Draw | \$16,950,531 | \$16,950,531 | \$13,829,756 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Sale Repayment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$30,780,287) |
| End Loan Balance | \$16,950,531 | \$16,950,531 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$30,780,287 | \$0 |

Exhibit 17. 10-Year Discounted Cash Flow Analysis

| Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------------------|-----------------------|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Timeline: | Construction | Construction & Lease Up | | | | | | | | |
| Land Cost | (\$9,872,207) | | | | | | | | | |
| Hard Cost | (\$20,066,667) | (\$10,033,333) | | | | | | | | |
| Soft Cost (35%) | (\$7,023,333) | (\$3,511,667) | | | | | | | | |
| Construction Costs | (\$36,962,207) | (\$13,545,000) | | | | | | | | |
| NOI Multifamily | \$0 | \$1,147,169 | \$3,118,738 | \$3,212,301 | \$3,308,670 | \$3,407,930 | \$3,510,168 | \$3,615,473 | \$3,723,937 | \$3,835,655 |
| Sale Value | | | | | | | | | | \$101,300,629 |
| Unlevered Cash Flow | (\$36,962,207) | (\$12,397,831) | \$3,118,738 | \$3,212,301 | \$3,308,670 | \$3,407,930 | \$3,510,168 | \$3,615,473 | \$3,723,937 | \$105,136,284 |
| Unlevered IRR | 13.1% | | | | | | | | | |
| Project Cash Flow | (\$36,962,207) | (\$12,397,831) | \$3,118,738 | \$3,212,301 | \$3,308,670 | \$3,407,930 | \$3,510,168 | \$3,615,473 | \$3,723,937 | \$105,136,284 |
| Add Back: Loan Draws | \$16,950,531 | \$13,829,756 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtract: Int Payments | (\$508,516) | (\$1,431,925) | (\$1,846,817) | (\$1,846,817) | (\$1,846,817) | (\$1,846,817) | (\$1,846,817) | (\$1,846,817) | (\$1,846,817) | (\$923,409) |
| Subtract: Loan Repay | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$30,780,287) |
| Levered Cash Flow | (\$20,520,191) | \$0 | \$1,271,921 | \$1,365,483 | \$1,461,852 | \$1,561,112 | \$1,663,350 | \$1,768,655 | \$1,877,120 | \$73,432,589 |
| Levered IRR | 18.6% | | | | | | | | | |
| Discount Rate | 9% | | | | | | | | | |
| Discounted Cash Flow: | (\$20,520,191) | 2.136E-10 | \$1,070,551 | \$1,054,404 | \$1,035,613 | \$1,014,616 | \$991,801 | \$967,515 | \$942,063 | \$33,810,404 |
| NPV | \$20,366,775 | | | | | | | | | |

Development Pipeline Report

Selection Characteristics

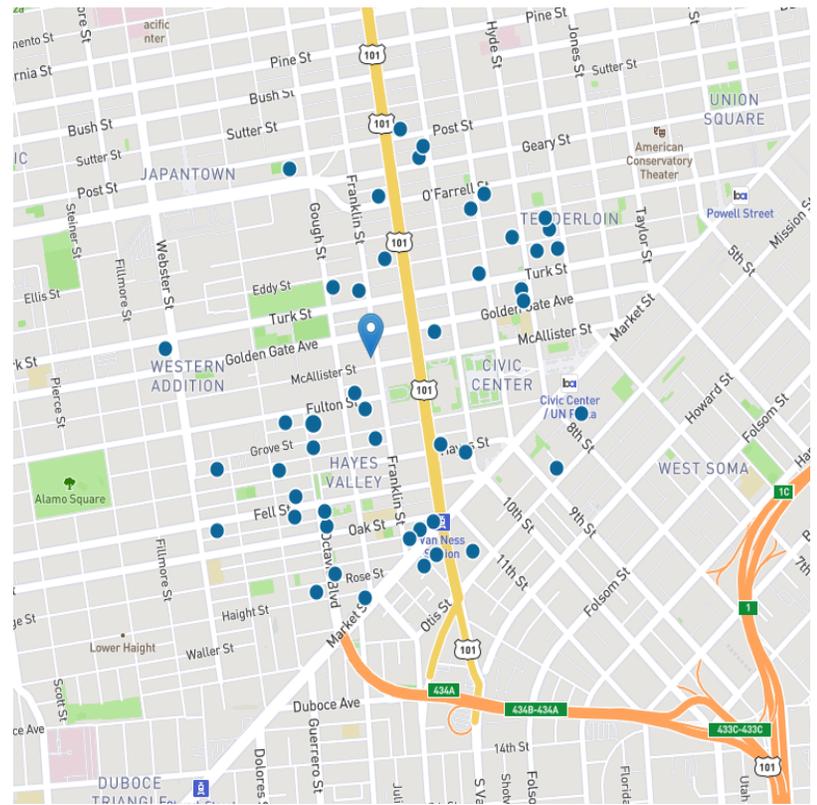
Location: Within 0.5 miles of 600 McAllister Street

Project Status: All projects

Total Units Added: No filters applied

Affordable Units Added: No filters applied

Non-residential Sq Ft Added: No filters applied



| Address | Total Units | Affordable Units | Retail | Office | Institutional | PDR | Medical | Hotel |
|---|-------------|------------------|----------------|-----------------|----------------|----------------|----------|-----------------|
| Under Construction | 680 | 55 | -20,056 | -106,302 | 730,888 | -10,900 | 0 | -212,653 |
| 150 VAN NESS AV | 431 | 50 | 9,000 | -136,558 | 0 | 0 | 0 | 0 |
| 22 FRANKLIN ST | 35 | 0 | 75 | 0 | 0 | 0 | 0 | 0 |
| 344 - 388 FULTON ST | 69 | 8 | 1,822 | 10,425 | 0 | 0 | 0 | 0 |
| 447 - 453 LINDEN ST | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CPMC HOSPITAL - VAN NESS & GEARY CAMPUS | -25 | -20 | -63,753 | 19,831 | 730,888 | -3,480 | 0 | -212,653 |
| 538 EDDY ST | 0 | 0 | 0 | 0 | 0 | 12,200 | 0 | 0 |
| 555 FULTON ST | 139 | 17 | 32,800 | 0 | 0 | -19,620 | 0 | 0 |
| 580 HAYES ST | 29 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Building Approved | 732 | 195 | 31,619 | -4,676 | 0 | 0 | 0 | 0 |
| 1301 TURK ST | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1546 - 1564 MARKET ST | 110 | 13 | -2,106 | -4,676 | 0 | 0 | 0 | 0 |
| 311 GROVE ST | 8 | 0 | 2,525 | 0 | 0 | 0 | 0 | 0 |
| 345 FULTON ST | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 524 HICKORY ST | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | | |
|--------------------------------------|-------|-----|---------|---------|--------|---------|---|---|
| 628 IVY ST | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 636 OCTAVIA ST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PARCEL O | 108 | 108 | 1,200 | 0 | 0 | 0 | 0 | 0 |
| TRINITY PLAZA | 501 | 74 | 30,000 | 0 | 0 | 0 | 0 | 0 |
| Planning Entitled | 840 | 99 | 14,250 | -89,498 | 10,797 | -20,685 | 0 | 0 |
| 1001 VAN NESS AV | 239 | 0 | 5,151 | -89,498 | 0 | 0 | 0 | 0 |
| 124 - 126 HAIGHT ST | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1270 MISSION ST | 299 | 64 | 820 | 0 | 0 | 0 | 0 | 0 |
| 1700 MARKET ST | 42 | 5 | -1,647 | 0 | 0 | 0 | 0 | 0 |
| 300 OCTAVIA ST | 12 | 1 | 1,606 | 0 | 0 | 0 | 0 | 0 |
| 300 OCTAVIA ST | 12 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| 430 EDDY ST | 23 | 3 | 797 | 0 | 797 | 0 | 0 | 0 |
| 469 EDDY ST | 28 | 3 | 2,600 | 0 | 0 | -20,685 | 0 | 0 |
| 950 GOUGH ST | 95 | 11 | 0 | 0 | 10,000 | 0 | 0 | 0 |
| 101 HYDE ST | 85 | 10 | 4,923 | 0 | 0 | 0 | 0 | 0 |
| Proposed | 3,259 | 252 | -58,069 | 574,580 | 37,341 | -57,000 | 0 | 0 |
| PARCEL T - OCTAVIA BLVD | 26 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1200 VAN NESS AV | 95 | 0 | -17,514 | 55,560 | 0 | 0 | 0 | 0 |
| 1333 GOUGH ST / 1481 POST ST | 231 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 135 HYDE ST | 72 | 0 | 1,060 | 0 | 0 | 0 | 0 | 0 |
| 1601 - 1637 MARKET ST / 53 COLTON ST | 584 | 107 | 9,275 | 27,296 | 0 | 0 | 0 | 0 |
| 1500 - 1580 MISSION ST | 540 | 110 | 23,009 | 552,309 | 0 | -57,000 | 0 | 0 |
| 1500 MARKET ST | 300 | 0 | 2,220 | -48,225 | 0 | 0 | 0 | 0 |
| 200 - 204 VAN NESS AV | 117 | 0 | 2,200 | -12,360 | 34,800 | 0 | 0 | 0 |
| 245 LEAVENWORTH ST | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 719 LARKIN ST | 42 | 5 | -4,600 | 0 | 0 | 0 | 0 | 0 |
| 500 TURK ST | 121 | 0 | 2,640 | 0 | 0 | 0 | 0 | 0 |
| 519 ELLIS ST | 28 | 0 | 2,541 | 0 | 2,541 | 0 | 0 | 0 |
| 550 OCTAVIA ST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 555 GOLDEN GATE | 60 | 7 | -7,000 | 0 | 0 | 0 | 0 | 0 |

| AV | | | | | | | | | |
|-------------------------|--------------|------------|----------------|----------------|----------------|----------------|----------|----------|-----------------|
| 781 OFARRELL ST | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 807 FRANKLIN ST | 49 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 830 EDDY ST | 126 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 SOUTH VAN NESS AV | 855 | 0 | -71,900 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1033 POLK ST | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 5,511 | 601 | -32,256 | 374,104 | 779,026 | -88,585 | 0 | 0 | -212,653 |