



Dawn Patrol Development



The Yard at Social Hall

100 South 200 East, SLC

Introduction

Our approach to development began with one goal in mind—success. We wanted to propose a development that would be financially successful to equity investors, and welcomed by the community. With this in mind, we began researching the market to see where there was a need. Multi-family housing had very attractive vacancy rates, with very little inventory in the pipeline. The table below shows the number of multi-family units in the pipeline by submarket.

Multi-Housing Market Snapshot - Submarket Detail

Submarket	Apartment Inventory		Apartment Completions		Net Absorption		Vacancy Rate		Rent per Unit	
	Units	Share (%)	Curr Qtr (Units)	YTD (Units)	Curr Qtr (Units)	YTD (Units)	Curr Qtr (%)	YOY Chg (BPS)	Curr Qtr (\$/Unit)	Ann. Chg (%)
Downtown	14,584	18.9	0	125	-69	264	2.1	-110	887.40	4.0
Layton/Davis County	6,488	8.4	0	0	-20	121	3.8	-70	740.77	3.2
Ogden/Weber County	6,495	8.4	0	0	54	128	3.0	-100	686.48	1.9
Sandy/East Valley/Park City	13,770	17.8	0	0	287	185	2.1	-150	920.23	6.3
South/Murray/Midval	16,051	20.8	0	0	8	177	2.8	-170	848.84	5.4
Southwest	10,943	14.2	0	0	72	230	3.5	-360	843.95	4.1
West Valley City/Airport Area	8,967	11.6	0	0	27	162	3.0	-130	739.55	4.7
Total: Salt Lake City	77,298	100.0	0	125	359	1,267	3.0	-180	820.67	4.6

Summary of Salient Facts

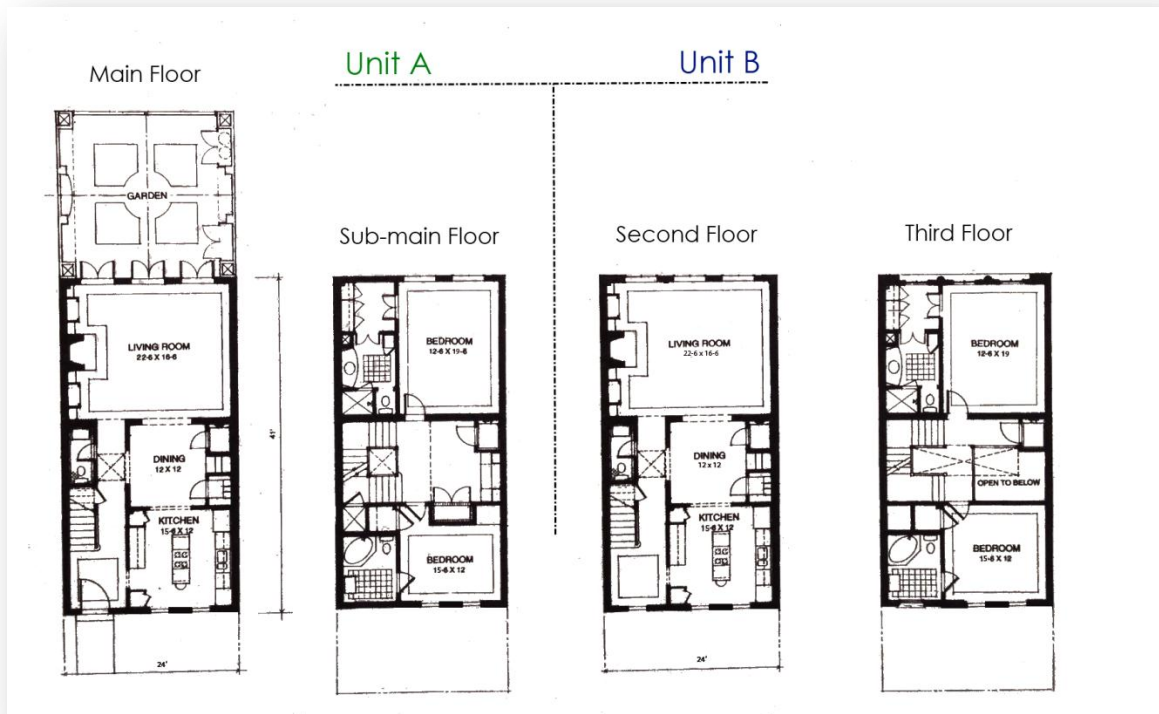
The site that we chose is located at the southwest corner of 100 South and 200 East in Salt Lake City. This prime real estate is located only two blocks from Temple Square, one block from City Creek, and across the street from a brand-new Harmons Grocery location. The parcel is 1.85 acres and is owned by Interstate Land Corp. The current owner had been leasing the parking lot to Questar, but the site is now an unused parking area.



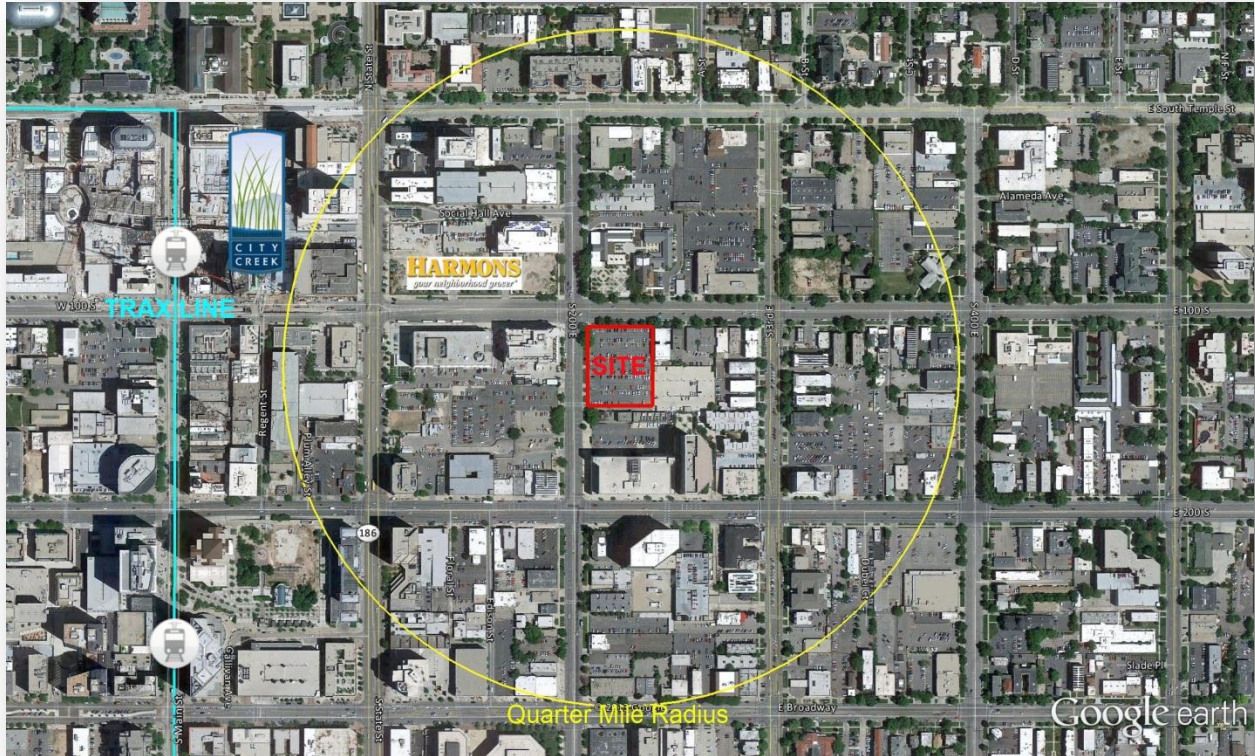
In the early stages of the project’s development, we created multiple pro formas to determine the property’s highest and best use. Ultimately, we determined that current market conditions made multi-family housing the most attractive. We will demolish the existing parking lot and build 74 stacked townhomes. The current market downtown does not have a product catering to families or a true town home project within nearly a half mile of downtown and we want to supply the demand.

Property Description

The Yard at Social Hall will be a stacked townhome community with 74 units. Each building contains two units—the first occupies the bottom two floors and the second occupies the top two floors. The main level is raised 4 feet and accessed by a stoop, creating effective privacy on each floor. The floor plans are spacious and each unit will have 1,512 square feet. All units will have washing machines and dryers, cable TV, and internet. Parking will also be available on-site, but it will be limited to one space per unit by utilizing on-street parking. Some tenants may require additional parking, and Diamond Parking Service has a parking structure immediately adjacent to the site for \$55 per month.

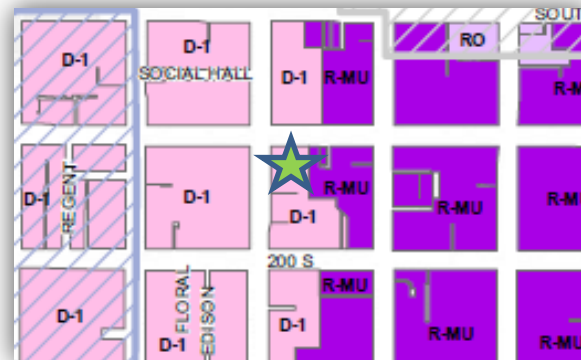


The property is well suited for residential development downtown. As seen in the map below, the following are within or just outside a five-minute walking distance (1/4 mile): City Creek shopping center, UTA trax stops, Harmons, Temple Square, Gallivan Plaza, and various restaurants. The site is immediately south of an Episcopal Cathedral, west of residential housing, and east of several large offices.



Feasibility Study

The property is currently zoned as D-1 (Central Business District), but borders R-MU (Residential/Mixed Use District). The city’s zoning ordinance permits residential development within D-1 zoning, although there are some design restrictions, such as how much glass needs to be on the ground level. The city is amenable to conditional uses in order to satisfy residential development needs. We would apply for conditional use of the property in order to maintain privacy at the ground level.



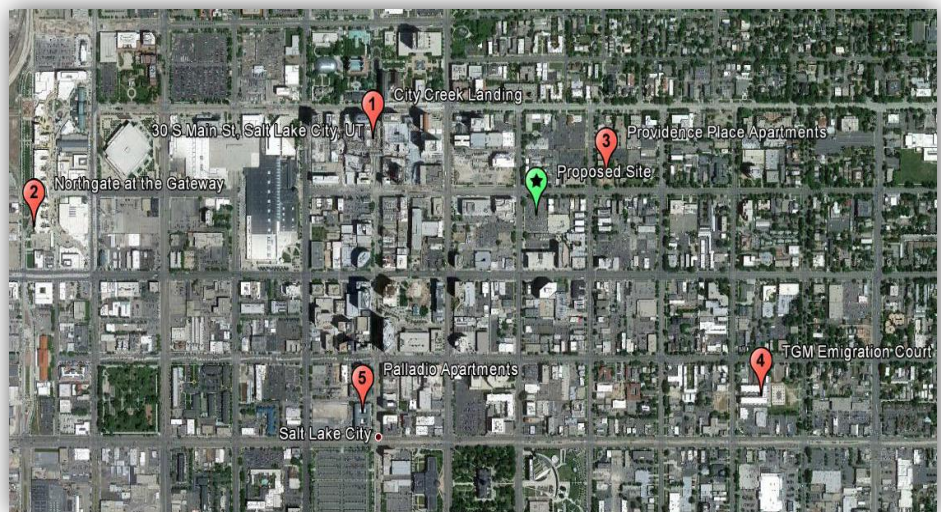
The demand for housing in the downtown area is increasing as a result of positive economic factors. The Salt Lake City market has relatively low unemployment compared to the nation over the last five years. In the last four quarters, Salt Lake City’s employment has grown at an average rate of 2.0% and is forecasted to grow at 2.8% over the next five years, as indicated in the chart below.

Multi-Housing Market 2-Year Forecast - Submarket Detail

Submarket	Rentable Inventory		Rentable Completions		Net Absorption		Vacancy Rate		Rent Growth (%) Performance Relative to Metro
	Units	Share (%)	Level (Units)	Share (%)	Avg Ann (Units)	Share (%)	End Rate (%)	Chg (BPS)	
Downtown	15,509	18.2	319	18.9	291	16.7	2.4	30	OutPerforms
Layton/Davis County	8,156	9.6	144	8.5	179	10.3	2.8	-100	Under Performs
Ogden/Weber County	8,330	9.8	175	10.4	179	10.3	2.8	-20	Average
Sandy/East Valley/Park City	15,616	18.3	306	18.2	293	16.8	2.2	10	OutPerforms
South/Murray/Midval	16,800	19.7	325	19.3	334	19.2	2.6	-20	Average
Southwest	11,448	13.4	242	14.4	275	15.8	2.8	-70	Under Performs
West Valley City/Airport Area	9,417	11.0	176	10.4	192	11.0	2.6	-40	Average

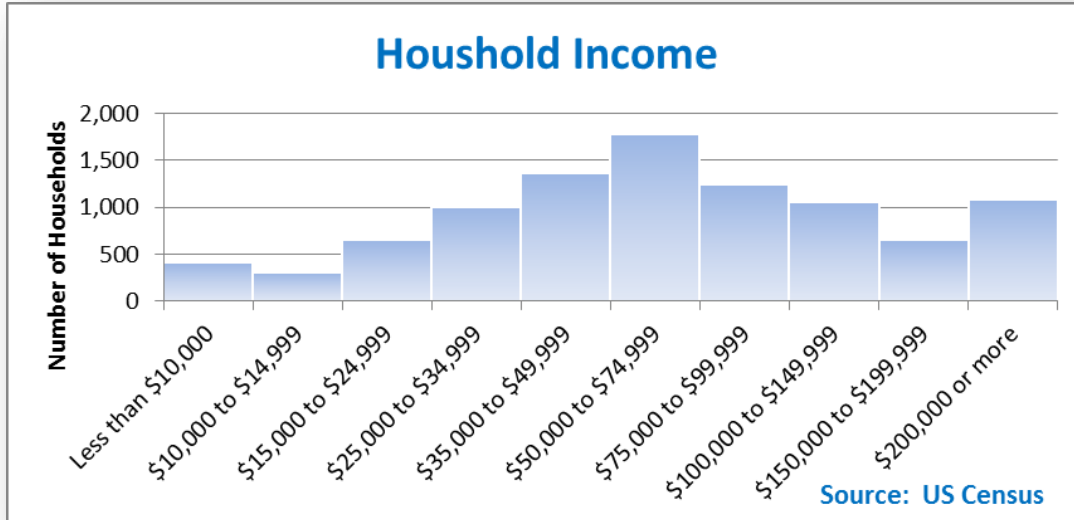
CBRE projects that even with 319 units coming into the market over the next two years, the vacancy rate will stay low around 2.4%. With a site selected, we needed to determine what need was not currently being met in the downtown submarket.

The map to the right shows what are in our opinion the current comparable apartments and condos for rent in the downtown area. These units all have two bedrooms and two bathrooms. We feel that we will be successful in the marketplace because the average rents for comparable units are \$1.21 per square foot, whereas our rents would be \$0.99 per square foot.



# on map	Name	Location	Price/Month	Size (Sq Ft)
1	City Creek Landing	30 S. Main St.	1477-1947	1023-1347
2	Northgate	135 S. 500 W.	929-1325	875-911
3	Providence Place	309 E. 100 St.	905	945
4	TGM Emigration Court	343 S 500 East	1335-1770	985-1163
5	Palladio Apartments	360 S. 200 W.	1259-1299	1038

Our units are superior to the competition in their location to grocery and retail centers, with the exception of the City Creek Landing units, which are located above the retail space within City Creek. They will be the largest 2 Bed/2 Bath units in the downtown market.



We analyzed the three primary zip codes that surround our site (84111, 84102, and 84103) and found the median household size to be 2.76. The corresponding household income for the same region falls primarily between \$35K-\$100K. Our market analysis shows that the demand for the dual-income family is currently undersupplied in the downtown submarket.

Deal Economics

It was difficult to find comparable land sales to justify the purchase price for the land because there were only three land sales in the downtown area listed on the MLS within the last five years, and these sales were not comparable in zoning or size. We ultimately added 10% to Salt Lake County’s assessed value to provide a margin of error, which brought us to the land acquisition price of \$3Million.

Hard costs were estimated using building indices, as well as talking with local development professionals in the industry. The largest hard cost is the actual construction costs. We spoke with several builders and were quoted between \$90 and \$100 per square foot for this product type. We went with the upper end of this range, as well as included a contingency of 4%. Our rationale here was that in order to remain competitive with the new apartments in City Creek, we needed units with somewhat higher quality finishes and would generate the rents we propose.

Cost Breakdown					
		Per Unit	Per Sq Ft	Total	% of Total
Land Acq Cost		\$ 40,541	\$ 37.23	\$ 3,000,000	24.5%
Grading & Demolition		\$ 338	\$ 0.31	\$ 25,000	0.2%
Site Improvements		\$ 3,378	\$ 3.10	\$ 250,000	2.0%
Construction Costs		\$ 100,000	\$ 91.83	\$ 7,400,000	60.6%
Total Hard Costs		\$ 103,716	\$ 95.24	\$ 7,675,000	62.8%
Soil & Environment Testing		\$ 203	\$ 0.19	\$ 15,000	0.1%
Engineering & Architecture	2,500 per unit	\$ 2,500	\$ 2.30	\$ 185,000	1.5%
Permits and Connections		\$ 4,448	\$ 4.08	\$ 329,184	2.7%
Legal		\$ 338	\$ 0.31	\$ 25,000	0.2%
Taxes	1.6%	\$ 2,642	\$ 2.43	\$ 195,528.54	1.6%
Developer Fee	4% of Total Costs	\$ 6,606	\$ 6.07	\$ 488,821.36	4.0%
Contingency	4% of Hard Costs	\$ 4,149	\$ 3.81	\$ 307,000	2.5%
Total Soft Costs		\$ 20,886	\$ 19.18	\$ 1,545,534	12.6%
Total Costs		\$ 165,142	\$ 151.65	\$ 12,220,534	100.0%

In order to determine the soft costs, we talked with city officials and with builders to determine the cost estimates. We obtained the following numbers from Salt Lake City:

- \$4,446/unit for impact fees and permits
 - \$119/unit for fire
 - \$3,999/unit for parks
 - \$41/unit for police
 - \$249/unit for roads
 - \$1,496 for storm drains

One builder told us that engineering and architecture usually runs \$2,000/unit for architecture and \$500/unit for engineering on projects of this scale. We also have a contingency and developer fee at 4%, which is the industry standard.

Key Assumptions for Cash Flow pro forma

- Rents: \$1,500/Unit
- 74 Units
- Annual rent growth: 4%¹
- Vacancy: 2.1%²
- Interest rate: 4%³
- Operating Expenses: 36% of EGI
- Future sales price calculated by applying 6.47% cap rate to year 6 NOI

Cash Flow Analysis						
	2013	2014	2015	2016	2017	2018
Potential Gross Income		\$ 1,332,000	\$ 1,385,280	\$ 1,440,691	\$ 1,498,319	\$ 1,558,252
Less Vacancy & Collection Loss		\$ (27,972)	\$ (29,091)	\$ (30,255)	\$ (31,465)	\$ (32,723)
Effective Gross Income		\$ 1,304,028	\$ 1,356,189	\$ 1,410,437	\$ 1,466,854	\$ 1,525,528
Less Operating Expenses		\$ (472,058)	\$ (490,940)	\$ (510,578)	\$ (531,001)	\$ (552,241)
Net Operating Income		\$ 831,970	\$ 865,249	\$ 899,859	\$ 935,853	\$ 973,287
Less Annualized Mortgage Payments		\$ (580,540)	\$ (580,540)	\$ (580,540)	\$ (580,540)	\$ (580,540)
Before Tax Cash Flows		\$ 251,430	\$ 284,708	\$ 319,318	\$ 355,313	\$ 392,747
Less Annual Depreciation		\$ (335,292)	\$ (335,292)	\$ (335,292)	\$ (335,292)	\$ (335,292)
Plus Annual Principal Paid		\$ 217,890	\$ 226,767	\$ 236,006	\$ 245,621	\$ 255,628
Taxable Income		\$ 134,028	\$ 176,184	\$ 220,032	\$ 265,642	\$ 313,083
Less Taxes from BTCF		\$ (33,507)	\$ (44,046)	\$ (55,008)	\$ (66,410)	\$ (78,271)
After-tax Cash Flow from Operations		\$ 217,923	\$ 240,662	\$ 264,310	\$ 288,902	\$ 314,476
Initial Equity Investment	\$ (3,055,133)					
After-tax Cash on Sale						\$ 6,122,771
Total After-tax Cash Flow	\$ (3,055,133)	\$ 217,923	\$ 240,662	\$ 264,310	\$ 288,902	\$ 6,437,247

Investment Measures	
First Year Measures	
Payback Period (years)	14.02
Profit Margin	16.71%
Default or Breakeven Ratio	80.72%
Operating Expense Ratio	36.20%
Debt Coverage Ratio	1.43
Loan to Value Ratio	75.00%
Effective Gross Income Multiplier	9.37
Capitalization Rate	6.81%
Before Tax Cash on Cash Return	8.23%
After Tax Cash on Cash Return	7.13%
Holding Period Measures	
Net Present Value @ 15%	\$855,758
Internal Rate of Return	21.5%

Reversion Statement	
Gross Future Sales Price	\$ 15,644,800
Less Selling Expenses	\$ (469,344)
Net Sales Proceeds	\$ 15,175,456
Less Debt Balance	\$ (7,983,487)
Before Tax Cash on Sale	\$ 7,191,969
Net Sales Proceeds	\$ 15,175,456
Less Cost Basis	\$ (12,220,534)
Capital Gain (Economic Gain)	\$ 2,954,922
Capital Gains Rate	22%
Capital Gains Taxes	\$ 650,083
Accumulated Depreciation	\$ 1,676,461
Recapture Tax Rate	25%
Recapture Taxes	\$ 419,115
Before Tax Cash on Sale	\$ 7,191,969
Less Capital Gains Taxes	\$ (650,083)
Less Recapture Taxes	\$ (419,115)
After Tax Cash on Sale	\$ 6,122,771

¹ Average rent growth for the downtown multi-housing submarket. Source: CBRE

² Current vacancy rates for the downtown multi-housing submarket. Source: CBRE

³ Estimate for bank's interest rate. Source: Flyn Dawson, Zions Bank