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South Bridge Project

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South Bridge Project

Abstract

[Excerpt] Care Study- The Jean DuSable Company is facing a decision regarding the development options for the final parcels within the South Bridge Redevelopment Project, a large mixed-use development in the North Michigan Avenue sub-market of Chicago's central business district Designed as a showplace for international leaders in retail, entertainment and hospitality, the South Bridge Redevelopment Project contains approximately 898,000 square foot of retail and entertainment space, 1.2 million square feet of office space, 2,300 hotel rooms and 2,500 parking spaces, spanning a nine-block area fronting Michigan Avenue and extending west to State Street.

Keywords

Cornell, case study, redevelopment, commercial real estate, hotel property

Editors Note:

The CREJ is pleased to present our first original case study, The South Bridge Project. While the facts and numbers are largely fictional, we believe that it presents real issues of quantitative and qualitative analysis that are present in the evaluation of all real estate opportunities. Following the case study are two responses prepared by students of the Cornell Program in Real Estate. Responses from readers are welcome!

A Teacher's Note, prepared by Prof. Jan deRoos, is available upon request.

The South Bridge Project

By Nina Brown, Professor Jan deRoos HVS International Professor Hotel Finance and Real Estate, Cornell University, and Elliott Burrell-Crowe.

The Jean DuSable Company is facing a decision regarding the development options for the final parcels within the South Bridge Redevelopment Project, a large mixed-use development in the North Michigan Avenue sub-market of Chicago's central business district. Designed as a showplace for international leaders in retail, entertainment and hospitality, the South Bridge Redevelopment Project contains approximately 898,000 square foot of retail and entertainment space, 1.2 million square feet of office space, 2,300 hotel rooms and 2,500 parking spaces, spanning a nine-block area fronting Michigan Avenue and extending west to State Street.

Development of the last component of the project, Blocks 124 and 125 (please see Figure 1), is scheduled to begin soon. The original plan called for development of a retail portion fronting Michigan Avenue at Grand Avenue and extending west across Rush Street to Wabash Avenue. This retail component would consist of three distinct elements: a four-story, 260,000 square foot, high end retailer, Fordstom Department Store, a 140,000 square feet specialty retail arcade and 222 parking spaces below the Fordstom store. A hotel was proposed above the specialty retail space linking the Fordstom store to Michigan Avenue. The hotel would be positioned as a franchise affiliated, luxury, 5-diamond AAA boutique hotel. Containing approximately 300 guestrooms, including 32 suites, amenities at the hotel would include approximately 8,700 square feet of retail space, a three-meal-a-day signature restaurant, a spa facility and a business center. The retail portion would be accessible from the hotel by a connecting elevator to the hotel's fifth floor lobby.

The Company requires construction financing for blocks 124 & 125 at the beginning of 1999. As a result of turmoil in the financial markets after the Asian economic crisis in August of 1998, debt and equity capital is in short supply. It has became difficult to find financing for projects of all types, but with the downturn in the capital markets, funds for full-service hotel projects have diminished severely. Lenders that are still active have raised their interest rates and have more stringent loan terms, requiring additional equity from borrowers and higher debt coverage ratios. Only projects with premium locations, in select markets, can attract financing. Securing financing for a project in Chicago is further complicated by conditions in the hotel market, in the city at the end of 1998. While the market fundamentals remain strong, a staggering number of new hotels are under construction or proposed for the city. Decreasing capital availability and an increasingly competitive hotel market in Chicago have caused the Company to reevaluate its development options. Since hotel financing might be difficult to obtain, the company has decided to consider the retail development and the

SOUTH BRIDGE DEVELOPMENT PROJECT

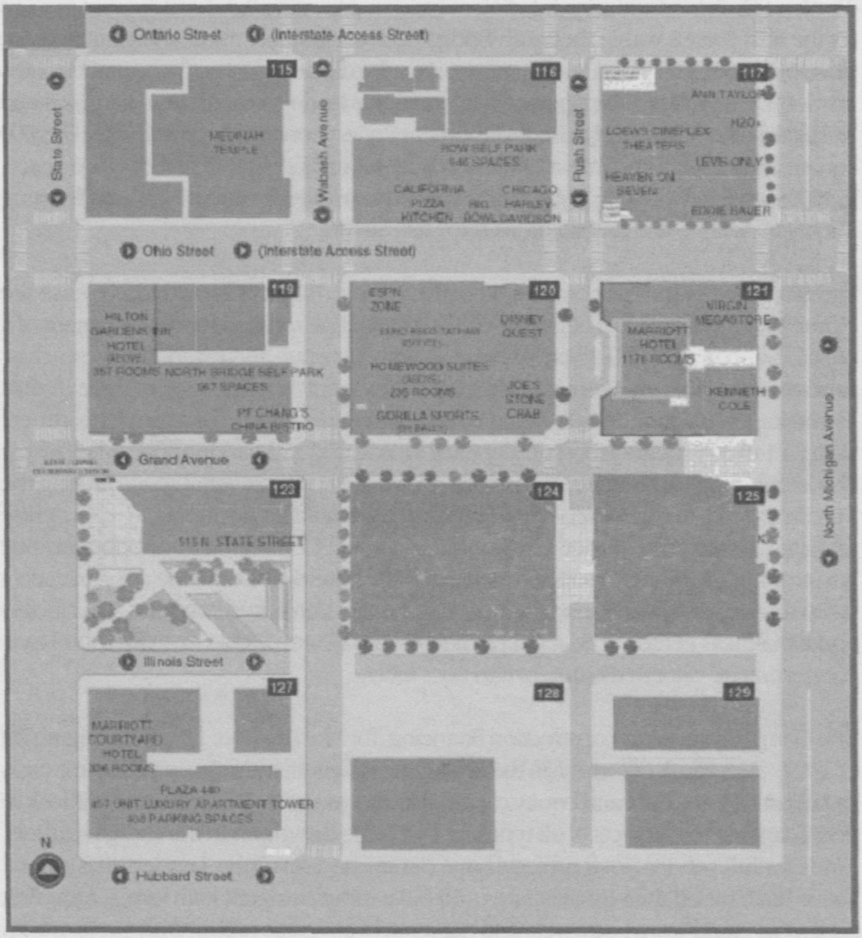

Figure 1

hotel development separately. In addition, they have decided to give serious consideration to the option of developing an office building instead of either a hotel or a retail mall.

As project manager for the Jean DuSable Company, your task is to draft a memo to Jean DuSable, Chairman of the Jean DuSable Company, describing your analysis of the highest and best use of the site. Options to be considered include: developing Block 124 and 125 as a hotel project only, as a retail complex only or, as an office building or some combination of the above options. Given the location of the property along Chicago's Magnificent Mile, it is assumed that any commercial use would be of greater value than the value of the site as vacant. Furthermore, it is assumed that retail , hotel, and office uses are all legally permissible uses. Your task is to test the financial feasibility and the maximum productivity of each alternative. The following pages contain the information necessary to make your recommendation.

Background

The South Bridge Redevelopment Project is The Jean DuSable Company's largest and most innovative project to date. With more than 2.1 million square feet of new development, this master-planned, nine block development, includes a mix of retail, entertainment, restaurant, hotel and office uses and encompasses the area from North Michigan Avenue on the east to the River North entertainment district on the west.

The Jean DuSable Company

The Jean DuSable Company was established in 1981 as a real estate consulting firm addressing real estate requirements of corporations, institutions, and professional service firms. Throughout the 1980s, the Company expanded its real estate consulting activities and developed a series of high-rise office and mixed-use structures utilizing internationally acclaimed architects. The Company has developed over 20 million square feet of mixed use and office space throughout the country. The firm is headquartered in Chicago with offices around Chicago and in New York, serving clients worldwide on varied assignments. The company employs approximately 400 professional, administrative, and support staff providing a full range of real estate services.

The South Bridge Redevelopment Project

The South Bridge Redevelopment project began in 1994 when Jean DuSable signed a letter of intent to construct a 500,000 square foot shopping mall on the west side of Michigan Avenue just south of Ohio Street. The $500 million dollar project included hotels, retail shops and entertainment venues more extensive than all but a few of the country's largest shopping centers. In total, the project encompassed nine city blocks, bounded by Ontario Street to the north, Illinois Street to the south, State Street to the west and Michigan Avenue to east. A summary of the current South Bridge Redevelopment components is presented below in Table 1.

Table 1

Building	Space
600 N. Michigan	270,000 sf
Marriott Hotel	400 Rooms
Retail Space	47,000 sf
Block 120	
Office	93,000 sf
Hotel	250 Suites
Entertainment	185,000 sf
Block 119 – Hilton Hotel	350 Rooms
515 N. State - Office	620,000 sf
Block 127	
Apartment Building	427 units
Marriott Courtyard	300 rooms
Block 116	
Structured Parking	900 Stalls

Block 124

Block 124 is a portion of the subject property. As originally conceived, the centerpiece of Block 124 would be the four level Fordstom high end retailer situated in the block bounded by Rush Street, Wabash, Illinois and Grand Avenues. In order to provide Michigan Avenue access to the Fordstom store, a 140,000 square foot bridge would be constructed over Grand Avenue extending between the 520 North Michigan Avenue building, over Rush Street, and into the Fordstom store. Shoppers would enter a four-story, glass atrium on Michigan Avenue between 520 North Michigan Avenue and the Chicago Marriott Hotel and proceed down a passageway lined with 30 upper-end specialty stores. In addition, Block 124 would include 222 parking spaces below grade and street level retail along Grand Avenue.

Block 125

Block 125 represents a portion of the subject property, as well. As originally conceived Block 125 would include 115,000 square feet of retail space and a 300-room full service luxury hotel located above the retail space

The McGraw-Hill Building

The redevelopment of Blocks 124 and 125 requires the demolition of 520 North Michigan Avenue, also known as the McGraw-Hill building, a 17-story, 70 year old office building with an Art Deco façade. In response to preservationists concerns about destroying the building, the Commission on Chicago Landmarks granted the building temporary landmark status. A compromise was eventually reached whereby the city of Chicago granted landmark status only to the façade of the building. As a result, the Jean DuSable Company is required to dismantle the granite and limestone façade piece by piece, store it during construction of the new building, and then replace it without damaging the historic and delicate material. The façade contained 2,200 slabs of stone, the largest of which weighs approximately one ton. While there was already some damage to the stone, an initial survey found that more than 70 percent of the façade is in good condition and reusable. Eighteen percent of the façade will not be replaced because that area is to be the location for the building's new atrium. Since seventy-five percent of the façade has to be restored in order for the building to maintain its landmark status, there is little margin for error. To insure proper compliance, Chicago's Department of Planning and Development has hired two consultants to monitor the project on a day to day basis. The Jean DuSable Company will face work stoppage or fines if the project does not adhere to the city's plan.

CHICAGO MARKET ANALYSIS

An analysis of the properties that would directly compete with the subject as a retail, hotel or office development is described below.

Competitive Retail Properties

The subject property is located in the North Michigan Avenue submarket, which extends from the Chicago River north to Oak Street, and is often referred to as *The Magnificent Mile*. Historically, Water Tower Place, completed in 1975, was the retail anchor of the area. However, with the development of the Fordstom store and the other South Bridge Redevelopment project's retail components, the recent completion of 700 North Michigan Avenue, located ½ mile from the subject property, and anchored by Polo – Ralph Lauren, Pottery Barn, Tiffany & Company, and Banana Republic, and the completion of 600 North Michigan Avenue anchored by Eddie Bauer, Marshall's, and Linen N' Things, it is likely that the retail orientation of North Michigan Avenue will change. The focal point of the area is anticipated to be a multi-block area extending from the 500 block to the 700 block of North Michigan (between Ohio and Illinois streets) Avenue including the subject site. Approximately 37 percent of the total supply of retail space surveyed by the Greater North Michigan Avenue Association is situated in vertical malls which include: Water Tower Place, 900 North Michigan Avenue, and 700 North Michigan Avenue. These properties in Table 2 are anticipated to be the primary competitors for the proposed facility.

Table 2

Name	Sq. Ft.	# of Stores	Occupancy %	Shoppers Median Annual Income	Sales/SF	Rental rates $/SF
Water Tower place	615,000	120	100	$44,000	$500	$65-100
900 N. Michigan	500,000	65	90	$50,000	$450	$55-90
700 N. Michigan	490,000	90	95	$44,000	$450	$60-95

900 North Michigan Avenue

Opened in 1988, the mall is anchored by a 250,000 square foot Bloomingdale's high-fashion department store. The remainder of the retail space is comprised of high-fashion retail specialty shops. Along with the retail space , the complex includes a 345-unit Four Seasons Hotel and 125 luxury residential condominium units.

700 North Michigan Avenue

Opened in 1990, with a total of 490,000 square feet. A 154,204 square foot Saks Fifth Avenue, high-fashion department store, anchors the development. In addition to the retail component, Chicago Place features a 49-story residential tower, with over 200 luxury residential condominium units

Retail Sales

In an analysis of a retail property, levels of income and purchasing power must be compared with actual retail sales to clearly ascertain the dynamics of the marketplace. Table 3 summarizes retail sales for Cook County and the Consolidated Metropolitan Statistical Area of Chicago, from 1988 to 1997, based on information provided by Sales and Marketing Management Survey of Buying Power.

Table 3

RETAIL SALES (000's) 1988-1997

Year	Chicago CMSA	% Increase	Cook County	% Increase or Decrease	County as a % of the CMSA
1988	$55,283,011		$34,571,081		63%
1989	$58,368,209	5.58%	$35,431,590	2.49%	61%
1990	$61,391,241	5.18%	$37,683,384	6.36%	61%
1991	$62,125,476	1.20%	$37,088,030	-1.58%	60%
1992	$70,464,364	13.42%	$40,550,354	9.34%	58%
1993	$71,698,132	1.75%	$40,483,853	-0.16%	56%
1994	$68,555,134	-4.38%	$43,770,495	8.12%	64%
1995	$71,507,560	4.31%	$45,020,565	2.86%	63%
1996	$72,346,774	1.17%	$44,750,490	-0.60%	62%
1997	$73,714,948	1.89%	$44,970,321	0.49%	61%
Compounded Annual Rate	3.25%	---	2.97%	---	---

Retail sales activity along North Michigan Avenue has substantially increased since 1976.

Table 4

HISTORICAL RETAIL SALES ALONG *The Magnificent Mile*		
Year	**Retail Sales**	**% Increase**
1976	$150,000,000	- - -
1977	$200,000,000	+33.33%
1978	$250,000,000	+25.00%
1979	$300,000,000	+20.00%
1980	$345,000,000	+15.00%
1981	$395,000,000	+14.49%
1982	$425,000,000	+7.59%
1983	$470,000,000	+10.59%
1984	$530,000,000	+12.77%
1985	$565,000,000	+6.60%
1986	$600,000,000	+6.19%
1987	$650,000,000	+8.33%
1988	$725,000,000	+11.54%
1989	$840,000,000	+15.86%
1990	$935,000,000	+11.31%
1991	$967,000,000	+3.42%
1992	$1,041,000,000	+7.65%
1993	$1,103,000,000	+5.96%
1994	$1,137,000,000	+3.08%
1995	$1,177,000,000	+3.52%
1996	$1,224,000,000	+3.99%
1997	$1,297,000,000	+5.96%

Retail Rental Rates

The growth in retail sales (See Table 4) has led to growth in rental rates for retail space. Average rental rates of retail space along the Magnificent mile have increased 46.3 percent from 1991 to 1998, and approximately started at $61.09 per square foot in the fourth quarter of 1998. Rental rates according to S. Realty Group, Ltd., were as high as $150.00 to $200.00 per square foot, nearly double 1992 levels, for ground level retail locations along *The Magnificent Mile*. As of April 1998, the overall vacancy rate, of the Magnificent Mile, according to S. Realty Group, Ltd., is estimated at 1.3 percent.

Competitive Hotel Properties

As proposed, the subject property would contain a 300-room, luxury hotel that would be positioned as a , five-diamond , AAA boutique property. As of the fourth quarter 1998, the Ritz-Carlton Chicago and the Four Seasons Hotel Chicago were the only hotels in Chicago in this quality category. In addition to these hotels, Table 5 summarizes other four-star hotels proximate to the subject site.

Table 5

Hotel	Rooms	ADR	Occ. %	% Comparability.
Fairmont	692	$174	82	100
Four Seasons	343	$325	80	100
Omni	347	$175	77	100
Renaissance	553	$191	76	100
Ritz Carlton	430	$295	75	100
Westin	422	$179	69	100

New and Proposed Properties

As of the fourth quarter 1998, a total of 2,027 new hotel rooms were under construction in Chicago. Of these projects, it is anticipated that the Park Hyatt will compete for room night demand on a primary basis with the proposed hotel. The Park Hyatt, located three blocks north of block 124, with 220 guestrooms is anticipated to open in January of 2000. The Allerton Crowne Plaza located on North Michigan Avenue four blocks south of the subject property will be approximately 75 percent competitive with the subject property. This hotel, with a reported 425 rooms, is scheduled to open in June of 1999. The Wyndham Suites is located one block east and two blocks south of the subject property. This first-class business hotel, with 418 guestrooms, is excepted to open in April of 1999. Even though this hotel is off of North Michigan Avenue and is positioned just below the proposed hotel in terms of quality level and price, it is anticipated to compete with the subject property on a secondary basis.

Competitive Office Properties

Major office buildings within the subject's immediate location include: The Equitable Building, The Tribune Tower, The Chicago Sun-Times Building, The IBM Building, and 541 North Fairbanks Court (Time-Warner Building). The immediate two-block radius from the subject property is developed with a wide variety of uses including hotels, residential, and office buildings, all with ground-level retail establishments. The Table6 summarizes the office building data that was considered to be the most competitive with the proposed facility.

Table 6

RESULTS OF COMPARABLE OFFICE BUILDINGS SURVEYED

Sample Size of Survey	5 Office Buildings
Total Amount of Space Surveyed	7,545,618 SF
Range of Net Rental Rates	$10.00 to 24.00/SF, Net
Average Net Rental Rate	$18.00/SF
Escalations	35.0% CPI, 2.0% & $0.50 per year
Lease Terms	5 to 10 years
Tenant Improvements	$35.00/SF new and $10.00/SF renewal

FINANCIAL OVERVIEW

The project construction costs for the retail, the hotel and the office scenarios are provided in the following Exhibits 1-4. Proforma income statements for each scenario are also provided as Exhibits 2, 3 and 4. At the end of 1998, retail projects can secure financing at interest rates of approximately 7 percent with a 25 year amortization schedule, with the mortgage lender lending up to 70 percent of the retail project's estimated value. Hotel projects, that are structured on a strong economic basis, can secure mortgage financing at interest rates of approximately 9 percent. A 25 year amortization schedule would be appropriate for the subject property as a hotel development and a mortgage lender would lend up to 70 percent of the hotel's estimated value. Office projects typically received a 6 percent mortgage interest rate with a 25 year amortization schedule and mortgage lenders are willing to loan up to 75 percent of the office project's value. The Jean DuSable Company assumes a holding period of ten years for all development projects, as long as net operating income is stabilized in the tenth and eleventh years. Selling costs are estimated at two percent for all property types. Table 7 summarizes relevant capitalization rates.

Table 7

Cushman & Wakefield Valuation Advisory Services National Investor Survey
Fall 1998 - Abstract

	Capitalization Rates				Internal Rate of Return	
	Going-In		Terminal			
	Low	High	Low	High	Low	High
Retail - Regional Malls						
Class A - Leased Asset	7.50%	8.30%	7.90%	8.80%	10.60%	11.50%
Luxury/Resort Hotels	8.00%	11.00%	9.00%	12.00%	11.50%	19.00%
Full Service Hotels	9.00%	12.00%	9.00%	12.50%	12.00%	18.00%
Office - Urban CBD						
Class A - Leased Asset	8.30%	8.70%	8.60%	9.10%	11.00%	11.50%

ASSIGNMENT SUMMARY

Having recently been hired as a new graduate of the Cornell Program in Real Estate, Mr. DuSable has asked you to quickly asses the South Bridge opputunity based on the information provided , as well as the following exhibits. He specifically requests that you analyze the available options and recommend a course of action, predicated upon the highest, best and permissible use.

Based on your analysis, prepare a memo to Mr. DuSable, recommending the use(s) of the site which are both financially feasible and the highest and best use. Include a discussion of the risk factors that should be considered for each property type in Chicago for the time period under consideration and describe how you would incorporate these risk factors into your investment analysis.

EXHIBIT 1

Project Components
Retail, Hotel and Office Scenarios

Retail				
Level	***GBA***	***GLA***	***Anchor GLA***	***Specialty Tenant GLA***
Ground Level	143,750	56,000	0	56,000
Second Floor	143,750	114,667	86,667	28,000
Third Floor	143,750	114,667	86,667	28,000
Fourth Floor	143,750	114,667	86,667	28,000
Total	**575,000**	**400,000**	**260,000**	**140,000**

Hotel			
Level	***Keys***	***Suites***	***Other***
Ground Level			Lobby/Restaurant
2nd Floor			Meeting Space
3rd Floor			Spa
4th Floor	26	0	
5th Floor	26	0	
6th Floor	26	0	
7th Floor	26	0	
8th Floor	22	4	
9th Floor	22	4	
10th Floor	22	4	
11th Floor	22	4	
12th Floor	22	4	
13th Floor	22	4	
14th Floor	16	4	
15th Floor	16	4	
Total	**268**	**32**	**300,000 SF**

Office		
Level	***GBA***	***GLA***
Ground Level	30,000	8,000
2nd Floor	30,000	28,000
3rd Floor	30,000	28,000
4th Floor	30,000	28,000
5th Floor	30,000	28,000
6th Floor	30,000	28,000
7th Floor	30,000	28,000
8th Floor	30,000	28,000
9th Floor	30,000	28,000
10th Floor	30,000	28,000
11th Floor	30,000	28,000
12th Floor	30,000	28,000
13th Floor	30,000	28,000
14th Floor	30,000	28,000
15th Floor	30,000	28,000
Total	**450,000**	**400,000**

Exhbit 2

Office Development Budget

	$ Amount	Per SF of GBA	Per SF of GLA	Percent of Total Costs
Land Costs				
Land Costs	$35,000,000	$77.78	$87.50	24.13%
Total Land Costs	$35,000,000	$77.78	$87.50	24.13%
Hard Costs				
Base Building	$63,000,000	$140.00	$157.50	43.43%
Hard Cost Contingency	$3,150,000	$7.00	$7.88	2.17%
FF&E	$0	$0.00	$0.00	0.00%
Total Hard Costs	$66,150,000	$147.00	$165.38	45.60%
Soft Costs				
Leasing Commissions	$4,500,000	$10.00	$11.25	3.10%
Tenant Improvements	$13,500,000	$30.00	$33.75	9.31%
Financing Fees	$2,250,000	$5.00	$5.63	1.55%
Marketing	$375,000	$0.83	$0.94	0.26%
Insurance	$475,000	$1.06	$1.19	0.33%
Real Estate Taxes	$950,000	$2.11	$2.38	0.65%
Management Fees	$1,950,000	$4.33	$4.88	1.34%
Soft Cost Contingency	$1,000,000	$2.22	$2.50	0.69%
Total Soft Costs	$25,000,000	$55.56	$62.50	17.23%
Developer's Profit	$18,922,500	$54.06	$47.31	13.04%
Project Total	$145,072,500	$322.38	$362.68	100.00%

Valuation Parameters

Expense Inflation Rate	3.00%
Terminal Capitalization Rate	8.60%
Selling Expenses	2.00%
Desired Equity Yield	11.00%
Mortgage Parameters	
Loan to Value Ratio	75%
Mortgage Interest Rate	6.50%
Mortgage Amortization	25 years

Office Operating Proforma (Expressed in Year 1 Dollars)

Revenue		Percent of PGI	Per SF of GLA	Year 3	Percent of PGI	Per SF of GLA
Base Rental Revenue	$8,770,553	63.4%	$ 21.93	$9,304,680	63.4%	$ 23.26
Absorption & Turnover Vacancy	-$125,294	-0.9%	$ (0.31)	-$132,924	-0.9%	$ (0.33)
Scheduled Base Rental Revenue	$8,645,260	62.5%	$ 21.61	$9,171,756	62.5%	$ 22.93
Reimbursable Operating Expenses	$0				12.6%	$ 4.63
General Operating	$1,746,000	12.6%	$ 4.37	$1,852,331	0.4%	$ 0.15
Insurance	$58,200	0.4%	$ 0.15	$61,744	19.3%	$ 7.07
Real Estate Taxes	$2,667,500	19.3%	$ 6.67	$2,829,951	1.2%	$ 0.43
Management Fee	$162,960	1.2%	$ 0.41	$172,884		
Non-Reimbursable Operating Expenses					0.3%	$ 0.11
Advertising and Marketing	$40,000	0.3%	$ 0.10	$42,436	5.2%	$ 1.92
Parking Income	$725,000	5.2%	$ 1.81	$769,153	0.4%	$ 0.13
Miscellaneous Revenue	$50,000	0.4%	$ 0.13	$53,045	101.9%	$ 37.38
Potential Gross Revenue	$14,094,920	101.9%	$ 35.24	$14,953,300	1.9%	$ 0.70
General Vacancy	$263,117	1.9%	$ 0.66	$279,140	100.0%	$ 36.69
Effective Gross Revenue	$13,831,803	100.0%	$ 34.58	$14,674,160		
Expenses					13.0%	$ 4.77
General Operating Expenses	$1,800,000	13.0%	$ 4.50	$1,909,620	0.4%	$ 0.16
Insurance	$60,000	0.4%	$ 0.15	$63,654	19.9%	$ 7.29
Real Estate Taxes	$2,750,000	19.9%	$ 6.88	$2,917,475	1.2%	$ 0.45
Management Fee	$168,000	1.2%	$ 0.42	$178,231	0.3%	$ 0.11
Advertising and Marketing Expense	$40,000	0.3%	$ 0.10	$42,436	34.8%	$ 12.78
Total Expenses	$4,818,000	34.8%	$ 12.05	$5,111,416		
Net Operating Income	$9,013,803	65.2%	$ 22.53	$9,562,744	65.2%	$ 23.91
Leasing & Capital Costs					4.1%	$ 1.52
Tenant Improvements	$571,429	4.1%	$ 1.43	$606,229	1.9%	$ 0.68
Leasing Commissions	$257,143	1.9%	$ 0.64	$272,803	0.4%	$ 0.16
Capital Reserves	$60,000	0.4%	$ 0.15	$63,654		
Income Tax	$8,125,232	58.7%	$ 20.31	$8,620,058	58.7%	$ 21.55

Exhibit 3

Retail Development Budget	$ Amount	Per SF of GBA	Per SF of GLA	Percent of Total Costs
Land Costs				
Land Costs	$35,000,000	$60.87	$87.50	16.83%
Total Land Costs	$35,000,000	$60.87	$87.50	16.83%
Hard Costs				
Base Building	$122,875,000	$213.70	$307.19	59.09%
Hard Cost Contingency	$6,143,750	$10.68	$15.36	2.95%
FF&E	$0	$0.00	$0.00	0.00%
Total Hard Costs	$129,018,750	$224.38	$322.55	62.05%
Soft Costs				
Leasing Commissions	$1,725,000	$3.00	$4.31	0.83%
Tenant Improvements	$4,900,000	$8.52	$12.25	2.36%
Financing Fees	$2,875,000	$5.00	$7.19	1.38%
Marketing	$2,500,000	$4.35	$6.25	1.20%
Insurance	$500,000	$0.87	$1.25	0.24%
Real Estate Taxes	$1,100,000	$1.91	$2.75	0.53%
Management Fees	$2,100,000	$3.65	$5.25	1.01%
Soft Cost Contingency	$1,100,000	$1.91	$2.75	0.53%
Total Soft Costs	$16,800,000	$29.22	$42.00	8.08%
Developer's Profit	$27,122,813	$47.17	$67.81	13.04%
Project Total	$207,941,563	$361.64	$519.85	100.00%

Valuation Parameters	
Expense Inflation Rate	3.00%
Terminal Capitalization Rate	8.00%
Selling Expenses	2.00%
Desired Equity Yield	11.00%
Mortgage Parameters	
Loan to Value Ratio	70%
Mortgage Interest Rate	7.00%
Mortgage Amortization	25 years

Retail Operating Proforma (Expressed in Year 1 Dollars)

Revenues	Stabilized Year	Percent of PGI	Per SF of GLA
Anchor Tenant Rent	$5,200,000	26.4%	$ 20.00
Specialty Tenant Rent	$9,800,000	49.8%	$ 70.00
Common Area Maintenance	$1,382,250	7.0%	$ 3.46
Real Estate Taxes	$2,667,500	13.5%	$ 6.67
Insurance	$20,370	0.1%	$ 0.05
Marketing Fund	$169,750	0.9%	$ 0.42
Parking Income	$750,000	3.8%	$ 1.88
Potential Gross Income	$19,989,870	101.5%	$ 49.97
Anchor V & C Loss	$0	0.0%	$ -
Specialty V&C Loss	$294,000	1.5%	$ 0.74
Effective Gross Income	$19,695,870	100.0%	$ 49.24
Expenses			
Common Area Maintenance	$1,425,000	7.2%	$ 3.56
Real Estate Taxes	$2,750,000	14.0%	$ 6.88
Insurance	$21,000	0.1%	$ 0.05
Marketing Fund	$169,750	0.9%	$ 0.42
Miscellaneous	$14,000	0.1%	$ 0.04
Total Expenses	$4,379,750	22.2%	$ 10.95
Net Operating Income	$15,316,120	77.8%	$ 38.29
Leasing and Capital Costs			
Turnover Tenant Finish Expense	$300,000	1.4%	$ 0.75
Leasing Commissions	$60,000	0.3%	$ 0.15
Reserve for Replacement	$35,000	0.2%	$ 0.09
Cash Flow Before Debt Service	$14,921,120	68.7%	$ 37.30

Exhibit 4

Hotel Development Budget

	$ Amount	Per SF of GBA	Per Room Costs	Percent of Total Costs
Land Costs				
Land Costs	$35,000,000	$116.67	$116,667	29.99%
Total Land Costs	$35,000,000	$116.67	$116,667	29.99%
Hard Costs				
Base Building	$52,500,000	$175.00	$175,000	44.98%
Hard Cost Contingency	$2,625,000	$8.75	$8,750	2.25%
FF&E	$6,200,000	$20.67	$20,667	5.31%
Total Hard Costs	$61,325,000	$204.42	$204,417	52.54%
Soft Costs				
Leasing Commissions	$0	$0.00	$0	0.00%
Tenant Improvements	$0	$0.00	$0	0.00%
Financing Fees	$1,750,000	$5.83	$5,833	1.50%
Marketing	$0	$0.00	$0	0.00%
Insurance	$425,000	$1.42	$1,417	0.36%
Real Estate Taxes	$750,000	$2.50	$2,500	0.64%
Management Fees	$1,500,000	$5.00	$5,000	1.29%
Soft Cost Contingency	$750,000	$2.50	$2,500	0.64%
Total Soft Costs	$5,175,000	$17.25	$17,250	4.43%
Developer's Profit	$15,225,000	$50.75	$50,750	13.04%
PROJECT TOTAL	$116,725,000	$389.08	$389,083	100.00%

Valuation Parameters

Expense Inflation Rate	3.00%
Terminal Capitalization Rate	11.50%
Selling Expenses	2.00%
Desired Equity Yield	15.00%
Mortgage Parameters	
Loan to Value Ratio	70%
Mortgage Interest Rate	9.00%
Mortgage Amortization	25 years

Hotel Operating Proforma (Expressed in Year 1 Dollars)

	Stabilized Year	Percent of Revenues	Year 3	
Average Daily Room Rate	$261.83		$261.83	
Occupancy (Percent)	$0.80		80%	
Room Revenue Per Available Room (RevPAR)	$209.46		$209.46	
Revenues				
Rooms	$21,619,401	57.44%	$22,936	57.44%
Food & Beverage	$12,563,861	33.38%	$13,329	33.38%
Telecommunications	$908,015	2.41%	$963	2.41%
Spa Income	$584,640	1.55%	$620	1.55%
Other Income	$1,964,000	5.22%	$2,084	5.22%
Total Revenue	$37,639,917	100.00%	$39,932	100.00%
Departmental Costs				
Rooms	$4,756,268	22.00%	$5,046	22.00%
Food & Beverage	$9,674,173	77.00%	$10,263	77.00%
Telecommunications	$426,767	47.00%	$453	47.00%
Spa Income	$438,480	75.00%	$465	75.00%
Other Income	$0	0.00%	$0	0.00%
Total Departmental Expenses	$15,295,688	40.64%	$16,227	40.64%
Undistributed Operating Expenses				
Administrative & General	$2,973,553	7.90%	$3,155	7.90%
Management Fee	$1,129,197	3.00%	$1,198	3.00%
Marketing	$2,258,395	6.00%	$2,396	6.00%
Property Operations & Maintenance	$1,505,597	4.00%	$1,597	4.00%
Utility Costs	$1,129,197	3.00%	$1,198	3.00%
Total Undistributed Operating Expenses	$8,995,940	23.90%	$9,544	23.90%
Income Before Fixed Charges	$13,348,288	35.46%	$14,161	35.46%
Fixed Charges				
Real Estate Taxes	$2,750,000	7.31%	$2,917	7.31%
Insurance	$376,399	1.00%	$399	1.00%
Reserve for Replacement	$1,129,197	3.00%	$1,198	3.00%
Net Operating Income	$9,092,692	24.16%	$9,646	24.16%