

**MARINERS COVE
SUMMARY OF DEVELOPER NEGOTIATIONS AND FINANCIAL ANALYSES
MAY 26, 2022**

I. AIMCO Proposal (April 2020)

- 99-year lease term including options
- No minimum investment
- Inclusionary units developed off-site
- No ground rent escalation beyond rent schedule in existing ground lease
- Ground rent adjusted in calendar years 2041, 2071, and 2093.
- Table 1 compares estimated ground lease payments for existing project vs. AIMCO proposal vs. SDHC counterproposal vs. AIMCO counterproposal

II. SDHC Counterproposal (November 2020)

- 75-year lease term
- Minimum \$350 M investment
- Inclusionary units developed off-site
- Ramp-up rent escalation at 10%/year during first 10 years, annual increase based on CPI every year thereafter
- Ground rent adjusted every 10 years based on appraisal beginning in Year 11, consistent with Council Policy 700-10 for market-rate adjustments on flat rate leases.
- Refer to Table 1 for comparison of estimated ground lease payments

III. KMA Financial Analysis (February 2021)

- Existing situation (500 units + \$25 M rehabilitation) yields 6.6% unleveraged IRR
- AIMCO proposal yields 8.1% unleveraged IRR
- SDHC counterproposal yields 7.8% unleveraged IRR
- Industry target returns for stabilized properties:
 - Real Estate Research Report (RERC), First Tier Properties, Fourth Quarter 2021: San Diego – 6.6%
 - PricewaterhouseCoopers (PwC), Fourth Quarter 2021: Pacific Region – average 6.38%
- Both the AIMCO proposal and SDHC counterproposal generate returns approximately 1.5% higher than these targets, which allows a spread for development risk

IV. London Moeder Associates (LMA) Response (February 2022)

- Using KMA financial models, LMA prepared multiple projections for AIMCO proposal vs. SDHC counterproposal for different time periods
- LMA did not alter any KMA assumptions regarding development costs, market rents, affordable rents, operating expenses, etc.
- LMA concurred with KMA estimates of unleveraged IRRs of 8.1% for AIMCO proposal and 7.8% for SDHC counterproposal
 - LMA believes that these returns are substandard, as measured by National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI)
 - LMA believes that the minimum required return for AIMCO should be 8.5% or higher
- LMA also estimated leveraged IRRs (assuming 70% loan-to-cost debt) of 9.4% for the AIMCO proposal and 9.2% for the SDHC Counterproposal
 - LMA believes that these returns are substandard, based on an assumed industry target of 14%-16% (no empirical data provided)

V. KMA and LMA Follow-up Discussions (March 2022)

- KMA and LMA exchanged e-mail correspondence and participated in a Zoom meeting to discuss various inputs and assumptions in the KMA and LMA financial models
- KMA and LMA both noted that the pro forma assumptions used in both the KMA and LMA analyses date back to April 2020
- KMA provided LMA with RERC and PwC reports to substantiate industry target returns
- LMA believes the RERC and PwC returns should be adjusted for “asset appreciation” required by investors assuming the development risk, thereby indicating a minimum target IRR of 8.5%

VI. AIMCO Counter Proposal (April 2022)

- An additional five (5) units at 60% AMI added to project
- Lease term of 55 years + one 20-year option
- No increases in ground rent during redevelopment/construction
- Annual CPI increase to ground rent to resume after project reaches stabilization
- Ground lease adjustment (appraisal) occurs in Year 2041 and at beginning of option period
- AIMCO did not provide updated financial pro forma and cash flow projection reflecting Counterproposal
- AIMCO continues to make good faith efforts to add 100 residential units on the Barnes Tennis Center site which will include 10 affordable units

- Refer to Table 1 for comparison of estimated ground lease payments

VII. Turner & Townsend (T&T) Development Cost Estimate and LMA Updated Costs and Revenues (May 2022)

- Unit count confirmed at 772 units
- T&T construction cost estimate dated 5/8/21 reflects Type V construction over single-level below grade garage and podium. Product type is not consistent with indications from AIMCO that project has been re-designed to a wrap-product.
- Direct costs escalated at 7.5% per year for 2.5 years to reflect 2025 construction start
- Indirect costs escalated at 2.0% per year for 2.5 years to reflect 2025 construction start
- Market rent estimates from 2020 increased by 13.6% based on San Diego County average rent increase between 2020 and 2021
- Affordable rents from 2020 recalculated to 2022 estimates
- No ground rent escalation beyond rent schedule in existing ground lease
- Ground rent adjusted in calendar years 2041 and 2071
- Unleveraged IRR estimated at 7.8%

VIII. LMA Updated Costs and Revenues (May 2022)

- LMA adjusts utility allowance assumptions
- LMA adds prevailing wages at 15% to development cost estimate
- Unlevered IRR estimated at 6.7%

IX. KMA Sensitivity Test (May 2022)

- KMA conducted sensitivity test estimating developer return based on optimistic cost and income assumptions, in particular:
 - Construction costs reduced by 10%
 - Cost escalation at 5.0%/year for 2.5 years to construction start
 - Annual income escalation at 3.5%
- KMA sensitivity test resulted in unleveraged IRR at 7.7%

TABLE 1

ESTIMATE OF GROUND LEASE PAYMENTS ⁽¹⁾

MARINERS COVE

SAN DIEGO HOUSING COMMISSION

Annual Escalation 2.50%

		A	B	C	D	E	F
		Existing	AIMCO Proposal	SDHC Counter	AIMCO Counter	LMA Updated Analysis	KMA Sensitivity Test
		April 2020	April 2020	November 2020	April 2022	May 2022	May 2022
Lease	Year	500 Units	772 Units	772 Units	777 Units	772 Units	772 Units
6	2021	\$1,239,000	\$1,239,000	\$1,239,000	\$1,239,000	\$1,239,000	\$1,239,000
7	2022	\$1,270,000	\$1,270,000	\$1,363,000	\$1,270,000	\$1,270,000	\$1,270,000
8	2023	\$1,302,000	\$1,302,000	\$1,500,000	\$1,270,000	\$1,302,000	\$1,302,000
9	2024	\$1,335,000	\$1,335,000	\$1,650,000	\$1,270,000	\$1,335,000	\$1,335,000
10	2025	\$1,368,000	\$1,368,000	\$1,815,000	\$1,270,000	\$1,368,000	\$1,368,000
11	2026	\$1,402,000	\$1,402,000	\$1,996,000	\$1,270,000	\$1,402,000	\$1,402,000
12	2027	\$1,437,000	\$1,437,000	\$2,196,000	\$1,302,000	\$1,437,000	\$1,437,000
13	2028	\$1,473,000	\$1,473,000	\$2,415,000	\$1,335,000	\$1,473,000	\$1,473,000
14	2029	\$1,510,000	\$1,510,000	\$2,657,000	\$1,368,000	\$1,510,000	\$1,510,000
15	2030	\$1,548,000	\$1,548,000	\$2,923,000	\$1,402,000	\$1,548,000	\$1,548,000
16	2031	\$1,587,000	\$1,587,000	\$3,215,000	\$1,437,000	\$1,587,000	\$1,587,000
17	2032	\$1,626,000	\$1,626,000	\$5,451,000 ⁽³⁾	\$1,473,000	\$1,626,000	\$1,626,000
18	2033	\$1,667,000	\$1,667,000	\$5,587,000	\$1,510,000	\$1,667,000	\$1,667,000
19	2034	\$1,709,000	\$1,709,000	\$5,727,000	\$1,548,000	\$1,709,000	\$1,709,000
20	2035	\$1,751,000	\$1,751,000	\$5,870,000	\$1,587,000	\$1,751,000	\$1,751,000
21	2036	\$1,795,000	\$1,795,000	\$6,017,000	\$1,626,000	\$1,795,000	\$1,795,000
22	2037	\$1,840,000	\$1,840,000	\$6,167,000	\$1,667,000	\$1,840,000	\$1,840,000
23	2038	\$1,886,000	\$1,886,000	\$6,321,000	\$1,709,000	\$1,886,000	\$1,886,000
24	2039	\$1,933,000	\$1,933,000	\$6,480,000	\$1,751,000	\$1,933,000	\$1,933,000
25	2040	\$1,981,000	\$1,981,000	\$6,642,000	\$1,795,000	\$1,981,000	\$1,981,000
26	2041 ⁽²⁾	\$4,472,000 ⁽³⁾	\$6,807,000 ⁽³⁾	\$6,807,552	\$6,807,000 ⁽³⁾	\$6,807,000 ⁽³⁾	\$6,807,000 ⁽³⁾
27	2042	\$4,584,000	\$6,977,000	\$6,978,000 ⁽³⁾⁽⁴⁾	\$6,977,000	\$6,977,000	\$6,977,000
28	2043	\$4,698,000	\$7,152,000	\$7,152,000	\$7,152,000	\$7,152,000	\$7,152,000
29	2044	\$4,816,000	\$7,330,000	\$7,331,000	\$7,330,000	\$7,330,000	\$7,330,000
30	2045	\$4,936,000	\$7,514,000	\$7,515,000	\$7,514,000	\$7,514,000	\$7,514,000
31	2046	\$5,060,000	\$7,701,000	\$7,702,000	\$7,701,000	\$7,701,000	\$7,701,000
32	2047	\$5,186,000	\$7,894,000	\$7,895,000	\$7,894,000	\$7,894,000	\$7,894,000
33	2048	\$5,316,000	\$8,091,000	\$8,092,000	\$8,091,000	\$8,091,000	\$8,091,000
34	2049	\$5,449,000	\$8,294,000	\$8,295,000	\$8,294,000	\$8,294,000	\$8,294,000
35	2050	\$5,585,000	\$8,501,000	\$8,502,000	\$8,501,000	\$8,501,000	\$8,501,000
36	2051	\$5,725,000	\$8,714,000	\$8,715,000	\$8,714,000	\$8,714,000	\$8,714,000
37	2052	\$5,868,000	\$8,931,000	\$8,932,000 ⁽³⁾	\$8,931,000	\$8,931,000	\$8,931,000
38	2053	\$6,014,000	\$9,155,000	\$9,155,000	\$9,155,000	\$9,155,000	\$9,155,000
39	2054	\$6,165,000	\$9,384,000	\$9,384,000	\$9,384,000	\$9,384,000	\$9,384,000
40	2055	\$6,319,000	\$9,618,000	\$9,619,000	\$9,618,000	\$9,618,000	\$9,618,000

TABLE 1

ESTIMATE OF GROUND LEASE PAYMENTS ⁽¹⁾

MARINERS COVE

SAN DIEGO HOUSING COMMISSION

Annual Escalation 2.50%

		A	B	C	D	E	F
		Existing	AIMCO Proposal	SDHC Counter	AIMCO Counter	LMA Updated Analysis	KMA Sensitivity Test
Lease	Year	April 2020 500 Units	April 2020 772 Units	November 2020 772 Units	April 2022 777 Units	May 2022 772 Units	May 2022 772 Units
41	2056	\$6,477,000	\$9,859,000	\$9,859,000	\$9,859,000	\$9,859,000	\$9,859,000
42	2057	\$6,639,000	\$10,105,000	\$10,106,000	\$10,105,000	\$10,105,000	\$10,105,000
43	2058	\$6,805,000	\$10,358,000	\$10,358,000	\$10,358,000	\$10,358,000	\$10,358,000
44	2059	\$6,975,000	\$10,617,000	\$10,617,000	\$10,617,000	\$10,617,000	\$10,617,000
45	2060	\$7,149,000	\$10,882,000	\$10,883,000	\$10,882,000	\$10,882,000	\$10,882,000
46	2061	\$7,328,000	\$11,154,000	\$11,155,000	\$11,154,000	\$11,154,000	\$11,154,000
47	2062	\$7,511,000	\$11,433,000	\$11,434,000 (3)(4)	\$11,433,000	\$11,433,000	\$11,433,000
48	2063	\$7,699,000	\$11,719,000	\$11,720,000	\$11,719,000	\$11,719,000	\$11,719,000
49	2064	\$7,891,000	\$12,012,000	\$12,013,000	\$12,012,000	\$12,012,000	\$12,012,000
50	2065	\$8,089,000	\$12,312,000	\$12,313,000	\$12,312,000	\$12,312,000	\$12,312,000
51	2066	\$8,291,000	\$12,620,000	\$12,621,000	\$12,620,000	\$12,620,000	\$12,620,000
52	2067	\$8,498,000	\$12,935,000	\$12,937,000	\$12,935,000	\$12,935,000	\$12,935,000
53	2068	\$8,711,000	\$13,259,000	\$13,260,000	\$13,259,000	\$13,259,000	\$13,259,000
54	2069	\$8,928,000	\$13,590,000	\$13,591,000	\$13,590,000	\$13,590,000	\$13,590,000
55	2070	\$9,152,000	\$13,930,000	\$13,931,000	\$13,930,000	\$13,930,000	\$13,930,000
56	2071 (2)(4)	\$9,380,000 (3)	\$14,279,000 (3)(4)	\$14,279,000	\$14,279,000 (3)(4)	\$14,279,000 (3)(4)	\$14,279,000 (3)(4)
57	2072	\$9,615,000	\$14,636,000	\$14,636,000 (3)(4)	\$14,636,000	\$14,636,000	\$14,636,000
58	2073	\$9,855,000	\$15,002,000	\$15,002,000	\$15,002,000	\$15,002,000	\$15,002,000
59	2074	\$10,101,000	\$15,377,000	\$15,377,000	\$15,377,000	\$15,377,000	\$15,377,000
60	2075	\$10,354,000	\$15,761,000	\$15,761,000	\$15,761,000	\$15,761,000	\$15,761,000
61	2076	\$10,613,000	\$16,155,000	\$16,155,000	\$16,155,000	\$16,155,000	\$16,155,000
62	2077	\$10,878,000	\$16,559,000	\$16,559,000	\$16,559,000	\$16,559,000	\$16,559,000
63	2078	\$11,150,000	\$16,973,000	\$16,973,000	\$16,973,000	\$16,973,000	\$16,973,000
64	2079	\$11,429,000	\$17,398,000	\$17,398,000	\$17,398,000	\$17,398,000	\$17,398,000
65	2080	\$11,714,000	\$17,833,000	\$17,833,000	\$17,833,000	\$17,833,000	\$17,833,000
66	2081	\$12,007,000	\$18,278,000	\$18,278,000	\$18,278,000	\$18,278,000	\$18,278,000
67	2082	\$12,307,000	\$18,735,000	\$18,735,000 (3)(4)	\$18,735,000	\$18,735,000	\$18,735,000
68	2083	\$12,615,000	\$19,204,000	\$19,203,000	\$19,204,000	\$19,204,000	\$19,204,000
69	2084	\$12,930,000	\$19,684,000	\$19,683,000	\$19,684,000	\$19,684,000	\$19,684,000
70	2085	\$13,254,000	\$20,176,000	\$20,176,000	\$20,176,000	\$20,176,000	\$20,176,000
71	2086	\$13,585,000	\$20,680,000	\$20,680,000	\$20,680,000	\$20,680,000	\$20,680,000
72	2087	\$13,925,000	\$21,197,000	\$21,197,000	\$21,197,000	\$21,197,000	\$21,197,000
73	2088	\$14,273,000	\$21,727,000	\$21,727,000	\$21,727,000	\$21,727,000	\$21,727,000
74	2089	\$14,630,000	\$22,270,000	\$22,270,000	\$22,270,000	\$22,270,000	\$22,270,000
75	2090	\$14,995,000	\$22,827,000	\$22,827,000	\$22,827,000	\$22,827,000	\$22,827,000

TABLE 1

ESTIMATE OF GROUND LEASE PAYMENTS ⁽¹⁾

MARINERS COVE

SAN DIEGO HOUSING COMMISSION

Annual Escalation		2.50%					
		A	B	C	D	E	F
Lease Year	Year	Existing	AIMCO Proposal	SDHC Counter	AIMCO Counter	LMA Updated Analysis	KMA Sensivity Test
		April 2020 500 Units	April 2020 772 Units	November 2020 772 Units	April 2022 777 Units	May 2022 772 Units	May 2022 772 Units
76	2091	\$0	\$23,398,000	\$0	\$0	\$0	\$0
77	2092	\$0	\$23,983,000	\$0	\$0	\$0	\$0
78	2093 ⁽⁵⁾	\$0	\$24,582,000 ⁽³⁾⁽⁴⁾	\$0	\$0	\$0	\$0
79	2094	\$0	\$25,197,000	\$0	\$0	\$0	\$0
80	2095	\$0	\$25,826,000	\$0	\$0	\$0	\$0
81	2096	\$0	\$26,472,000	\$0	\$0	\$0	\$0
82	2097	\$0	\$27,134,000	\$0	\$0	\$0	\$0
83	2098	\$0	\$27,812,000	\$0	\$0	\$0	\$0
84	2099	\$0	\$28,508,000	\$0	\$0	\$0	\$0
85	2100	\$0	\$29,220,000	\$0	\$0	\$0	\$0
86	2101	\$0	\$29,951,000	\$0	\$0	\$0	\$0
87	2102	\$0	\$30,700,000	\$0	\$0	\$0	\$0
88	2103	\$0	\$31,467,000	\$0	\$0	\$0	\$0
89	2104	\$0	\$32,254,000	\$0	\$0	\$0	\$0
90	2105	\$0	\$33,060,000	\$0	\$0	\$0	\$0
91	2106	\$0	\$33,887,000	\$0	\$0	\$0	\$0
92	2107	\$0	\$34,734,000	\$0	\$0	\$0	\$0
93	2108	\$0	\$35,602,000	\$0	\$0	\$0	\$0
94	2109	\$0	\$36,492,000	\$0	\$0	\$0	\$0
95	2110	\$0	\$37,404,000	\$0	\$0	\$0	\$0
96	2111	\$0	\$38,340,000	\$0	\$0	\$0	\$0
97	2112	\$0	\$39,298,000	\$0	\$0	\$0	\$0
98	2113	\$0	\$40,280,000	\$0	\$0	\$0	\$0
99	2114	\$0	\$41,287,000	\$0	\$0	\$0	\$0
Total Ground Lease Payments ⁽⁶⁾		\$468,000,000	\$1,452,000,000	\$741,000,000	\$693,000,000	\$695,000,000	\$695,000,000
Present Value @ 8.0%		\$33,241,000	\$43,860,000	\$58,774,000	\$38,194,000	\$42,357,000	\$42,357,000

(1) All projections based on AIMCO original pro forma submitted June 24, 2020 and August 28, 2020.

(2) Reflects future milestone year for reappraisal and ground rent adjustment, per Second Amended and Restated Ground Lease effective July 1, 2015.

(3) KMA preliminary estimate based on KMA estimate of land value. Assumes a ground rent factor of 7.5%.

(4) KMA model assumes that both annual ground rent and appraised value escalate at 2.5% annually. If appraised value escalates more rapidly, then there will be more significant increase in ground rent at each appraisal milestone.

(5) Per Developer proposal, assumes ground lease term extended to include two 22-year options, for a total of 99 years.

(6) In current (future) dollars.