



April 1, 2022

San Diego Housing Commission
122 Broadway
Suite 300
San Diego, CA 92101

Re: Summary of LMA and KMA Analyses for Mariner's Cove

The purpose of this memorandum is to summarize financial analyses which were independently prepared by London Moeder Advisors and KMA to clarify the financial prognosis of the Mariner's Cove property and to inform our mutual understanding of the achievable lease rate.

KMA was retained by the Housing Commission to conduct a financial analysis to determine the achievable lease rate of this property going forward, taking into account the redevelopment of the site and the expansion of the project from 500 to 772 housing units.

London Moeder Advisors (LMA) was retained to review the KMA analysis. We did that. It resulted in our firm conducting our own analysis. Our results differed greatly from those of KMA. We then presented our analysis to KMA.

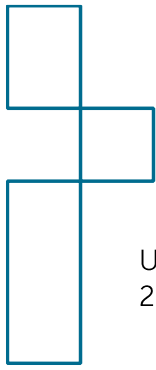
In short, we determined that the KMA analysis was not consistent with how real estate development and long-term investments are analyzed by developers and investors. The KMA methodology did not account for two separate aspects of the project: the demolition and construction phase, followed by the long-term operational phase. These two phases needed to be bifurcated to properly analyze the distinct risk periods and their economic implications. Our analysis reflects how a developer or investor in the private sector would analyze the Mariner's Cove project.

In particular, our repaired analysis correctly reflects the acceptable long-term average return. It is not 7.8% as indicated by KMA. The appropriate rate of return, conservatively, is 8.5% that should be used in this type of financial analysis. We presented the correct basis to KMA and defended that basis by presenting bona fide national data. We also consulted with national experts and verified various sources of data.

This is not a difference in opinion between two consultants. There are basic methodological approaches to this type of analysis and KMA now understands this.

After working through a review process with KMA, our conclusion substantiates the original AIMCO proposal. It is above market and favorable to the City.

Summary of Review Process



Upon review of KMA's methodology and calculations, we prepared a memo report on February 14, 2022, that we sent to KMA. The memo outlined critical methodological concerns, which are:

- ➔ KMA's approach considers the deal as if the project was already built and stabilized with a steady income stream.
- ➔ KMA did not factor the risks of construction and lease-up.
- ➔ KMA did not account for all the financing costs.
- ➔ KMA utilizes a low required return for investors that is not reliable or supported by industry data.

After we sent our memo to KMA, we made our team available to answer any questions. We supplied additional information regarding financing assumptions and costs. We also explained the correct leverage assumptions that are utilized by institutional investors and how they finance projects.

On March 23, 2022, we held a zoom call with KMA to discuss any outstanding issues. KMA acknowledged our methodology of bifurcating the investment periods to account for the distinct risks (e.g. development vs. long-term hold of a stabilized asset). KMA understood, acknowledged, and deferred to our methodology.

The only area of concern is the long-term required returns of investors. The remainder of this memo addresses this matter.

KMA stated that they observed surveys from PwC and RERC that showed investor returns of approximately 6.0%, which is lower than the NCREIF index return of 8.5% utilized in our analysis.

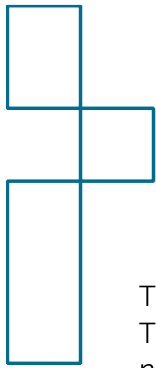
We are familiar with both of the surveys as well as the NCREIF index. In an email to KMA on March 24, 2022, we detailed why the surveys are not a correct indication of long-term returns for investors, and why the real estate industry, economists and academia rely on the NCREIF index for long-term investor returns.

Essentially, the NCREIF index utilizes a distinct methodology for reporting actual financial returns on real estate assets. It also accounts for over 50% of the value of US commercial properties that are privately owned and includes over 35,000 properties. It is also a historical index that dates back to 1978.

NCREIF is not a survey.

In contrast, KMA utilized survey reports by PwC and RERC that are based on a small sample size of investors. Importantly, these surveys are limited to a one-year cash return expectation over the future 12 months. The surveys do not include any information on the total return of real estate¹, which is a composite of both cash return and asset appreciation. Therefore, KMA is observing only the partial return of investors.

¹ We have verified this fact with our contacts at PwC (Susan Smith) and RERC (Madison Koonce).



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There is no question that the appropriate source of long-term investor returns is the NCREIF index. This index is utilized and relied upon in the real estate industry as well as in litigation matters that necessitate the use of reliable reporting data. Economists and universities also utilize the NCREIF index because of the volume of properties included as well as the monitored financial reporting and methodology that indicates the actual returns of real estate investments.

It would be misleading and incorrect to utilize the PwC and RERC surveys when significantly more reliable and defensible data is available in the NREIC index.

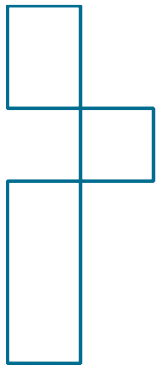
We have worked diligently with KMA to answer their questions and believe that we have achieved a mutual understanding of proper methodologies and data sources. We have not received an updated report or analysis that demonstrates how KMA has incorporated the information we have provided.

We are committed to being a resource for SDHC and KMA and are available for any further meetings or calls.

Sincerely,

Gary H. London

Nathan Moeder



Corporate Profile

London Moeder Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

London Moeder Advisors (formerly The London Group) was formed in 1991 to provide real estate advisory services to a broad range of clientele. The firm principals, Gary London and Nathan Moeder, combine for over 60 years of experience. We have analyzed, packaged and achieved capital for a wide variety of real estate projects. Clients who are actively pursuing, developing and investing in projects have regularly sought our advice and financial analysis capabilities. Our experience ranges from large scale, master planned communities to urban redevelopment projects, spanning all land uses and development issues of all sizes and types. These engagements have been undertaken principally throughout North America and Mexico.

A snapshot of a few of the services we render for both the residential and commercial sectors:

- **Market Analysis** for mixed use, urban and suburban properties. Studies concentrate on market depth for specific products, detailed recommendations for product type, absorption and future competition. It also includes economic overviews and forecasts of the relevant communities.
- **Financial Feasibility Studies** for new projects of multiple types, including condominium, apartment, office, and master-planned communities. Studies incorporate debt and equity needs, sensitivity analyses, rates of return and land valuations.
- **Litigation support/expert witness services** for real estate and financial related issues, including economic damages/losses, valuations, historic market conditions and due diligence. We have extensive deposition, trial, mediation and arbitration experience.
- **Investment studies for firms acquiring or disposing of real estate.** Studies include valuation, repositioning projects and portfolios, economic/real estate forecasts and valuation of partnerships. Often, the commercial studies include the valuation of businesses.
- **Estate Planning services** including valuation of portfolios, development of strategies for disposition or repositioning portfolios, succession planning and advisory services for high net worth individuals. We have also been involved in numerous marriage dissolution assignments where real estate is involved.
- **Fiscal Impact, Job Generation and Economic Multiplier Effect Reports**, traditionally prepared for larger commercial projects and in support of Environmental Impact Reports. We have been retained by both developers and municipalities for these reports. The studies typically relate to the tax revenues and employment impacts of new projects.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff. Clients who are actively investigating and investing in apartment projects, retail centers, commercial projects, mixed use developments and large master plans have regularly sought our advice and financial analysis capabilities.

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