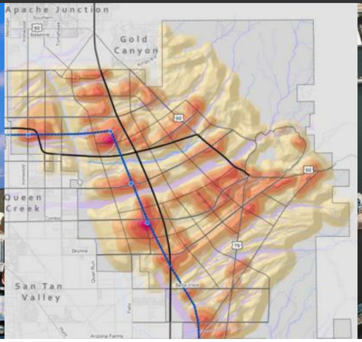
HGAC Livable Centers Private Development Workshop #2
Land as an Incentive

June 21, 2013



Practice Areas

- Urban Development
- Community Development
- Public Sector Strategies
- Management Consulting

Offices

- Washington, DC
- Los Angeles
- Austin
- Orlando

RCLCO is a land use economics firm delivering **real estate strategies**, **market intelligence**, and **implementation assistance**

AREAS OF EXPERTISE
PUBLIC SECTOR

Downtown Revitalization

Gwinnett County, GA

Denton, TX

Albuquerque, NM

Houston, TX

Chattanooga, TN

Washington, D.C.

Industrial City Turnaround

Cincinnati, OH

Yonkers, NY

Indianapolis, IN

Buffalo, NY

Transit-Oriented Development

Washington, D.C. Streetcar System

Houston Intermodal Station

Charlotte, NC Transit System

Washington, D.C. MetroRail Extension

Metropolitan Growth Strategies

Superstition Vistas – Arizona

Envision San Diego – San Diego, CA

Envision Utah – Wasatch Valley, UT

Corridor Planning

Great Streets Initiative – St. Louis, MO

Great Streets Initiative – Washington, D.C.

Memorial Drive – DeKalb County, GA

Richmond Highway – Fairfax, VA

City of Oceanside – Oceanside, CA

Town Centers

Reston Town Center (DC)

Lenexa City Center (KS)

Easton Town Center (Columbus)

Affordable Housing

Terwilliger Center for Workforce Housing

Unidev, LLC

NCB Capital Impact

Public Private Partnerships

Big Darby Town Center – Columbus, OH

Great Streets – St. Louis, MO

Mt. Vernon Square, Washington, D.C.

FORTY YEARS OF PRIVATE SECTOR EXPERIENCE
PRIVATE SECTOR SOLUTIONS FOR PUBLIC PROJECTS

Private Sector

Steiner + Co.
Hines
Penzance
Lowe Enterprises
JBG Companies
The Woodlands
Howard Hughes Corp.
GID Urban Development
Johnson Development
Newland Communities
Crescent RE Equities
Forest City Enterprises
Boston Properties
Related Companies
Vulcan Properties

Institutional Investors

CalPERS
CalSTRS
TX Teachers Retirement
AZ State Retirement System
Revival Fund Management
Crescent Resources, LLC
First Washington Realty
ING Bank
CPP
Morgan Stanley
Solomon Smith Barney
Avalon Bay

RCLCO was founded by an architect who understood consumer preferences, market segmentation, and financial feasibility.

Our firm cut its teeth by servicing the private development industry, including financial institutions, homebuilders, land developers, and mixed-use developers.

Over a decade ago, we developed a suite of services for public sector clients who needed to leverage our private sector development expertise.

DEVELOPER'S RISK ASSESSMENT

Developers assess project risks based upon a number of key factors:

- Economic Conditions
- Site Constraints and Opportunities
- Regulatory Issues
- Access to Capital

ECONOMIC CONDITIONS HAVE TREMENDOUS INFLUENCE ON PROJECT FEASIBILITY

Key questions developers will consider regarding economic conditions:

- What is the current and expected macroeconomic environment?
- Do economic conditions and market trends suggest there is a market to support the project?
- Can rent revenues and/or sales revenues justify the cost to build the project, including the price of the land?
- Is the price of the land justified for the type of real estate the market will support?
- Are construction costs (labor and material) favorable?

SITE CONSTRAINTS AND CHARACTERISITICS ARE IMPORTANT CONSIDERATIONS

Key questions developers will consider regarding site issues for a prospective project:

- Is an appropriate site available to accommodate the project? Can the site accommodate the type of building that is market supportable?
- Is the ownership of the site fragmented?
    - Fragmented ownership and difficult assemblages often rule out large projects that may attract national developers
- Is assemblage of multiple parcels required? Can the assemblage be executed in a timely manner?
- Is the appropriate infrastructure in place to accommodate the project or are significant improvements required to justify the project’s rents and/or sales prices needed to turn a profit?

REGULATORY CLIMATE CAN MAKE OR BREAK A PROJECT

Key regulatory questions developers will consider:

- What regulatory, tax, and other conditions are present in the market?
- Will regulatory factors impact when the project can be delivered? How much risk exposure is there with respect to time (the longer a project is dragged out, the more risk it incurs and becomes less attractive to developers)
- What are the parking requirements?
- Are traffic impacts a concern?

ACCESS TO CAPITAL KEY CONSTRAINT IN TODAY'S ENVIRONMENT

Key questions regarding project financing:

- What financing is available?
- What is the cost and terms of the financing?
- Is public financing available for improvements?
- Are other incentives available to mitigate market, site, and regulatory risks?

THERE ARE SEVERAL RISK FACTORS WHICH CAN BE MITIGATED AT THE LOCAL LEVEL TO ENCOURAGE MORE DEVELOPMENT

Market and Economic Risk are always present, but other risk factors can be mitigated:

- Site infrastructure
- Regulatory/Policy Hurdles
  - Local Regulations
  - Parking Requirements
- Land carry, assemblage, etc

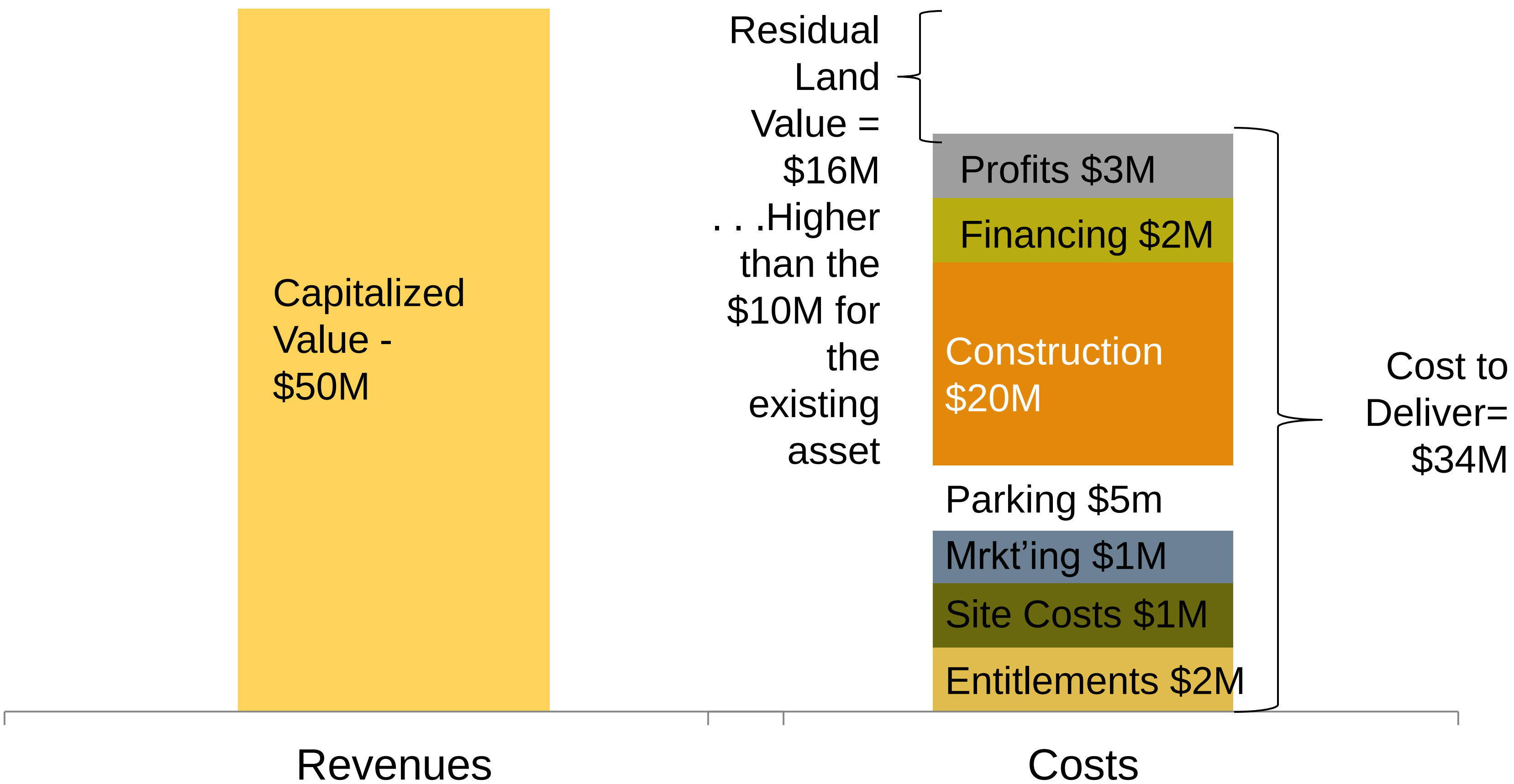
CAPITAL MARKETS MEASURE "RESIDUAL LAND VALUE"

Existing stabilized asset has a discernible value

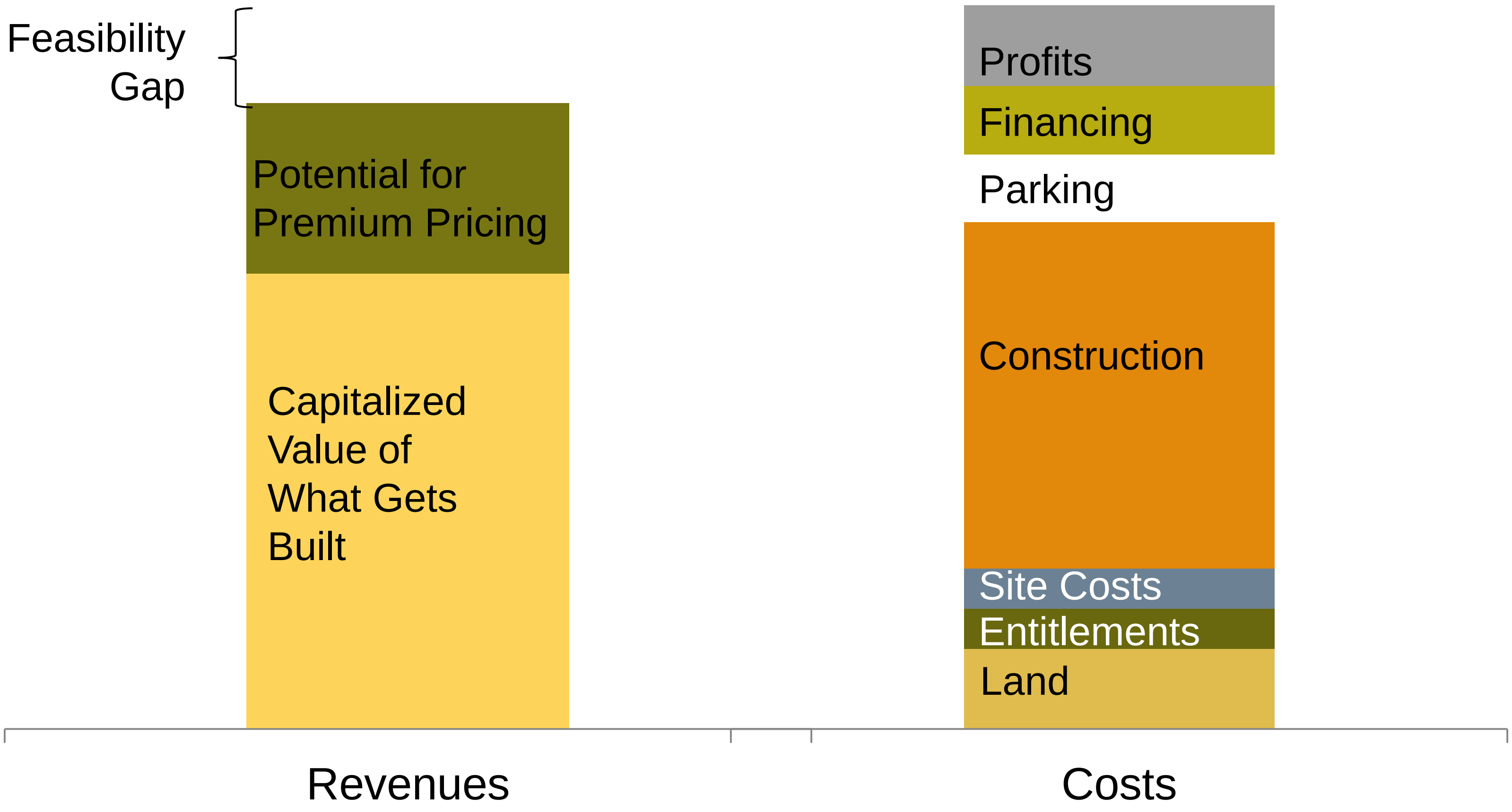
For this example: $10M

To use the bank's money to control and redevelop the asset, the underlying land value has to prove to be more than $10M

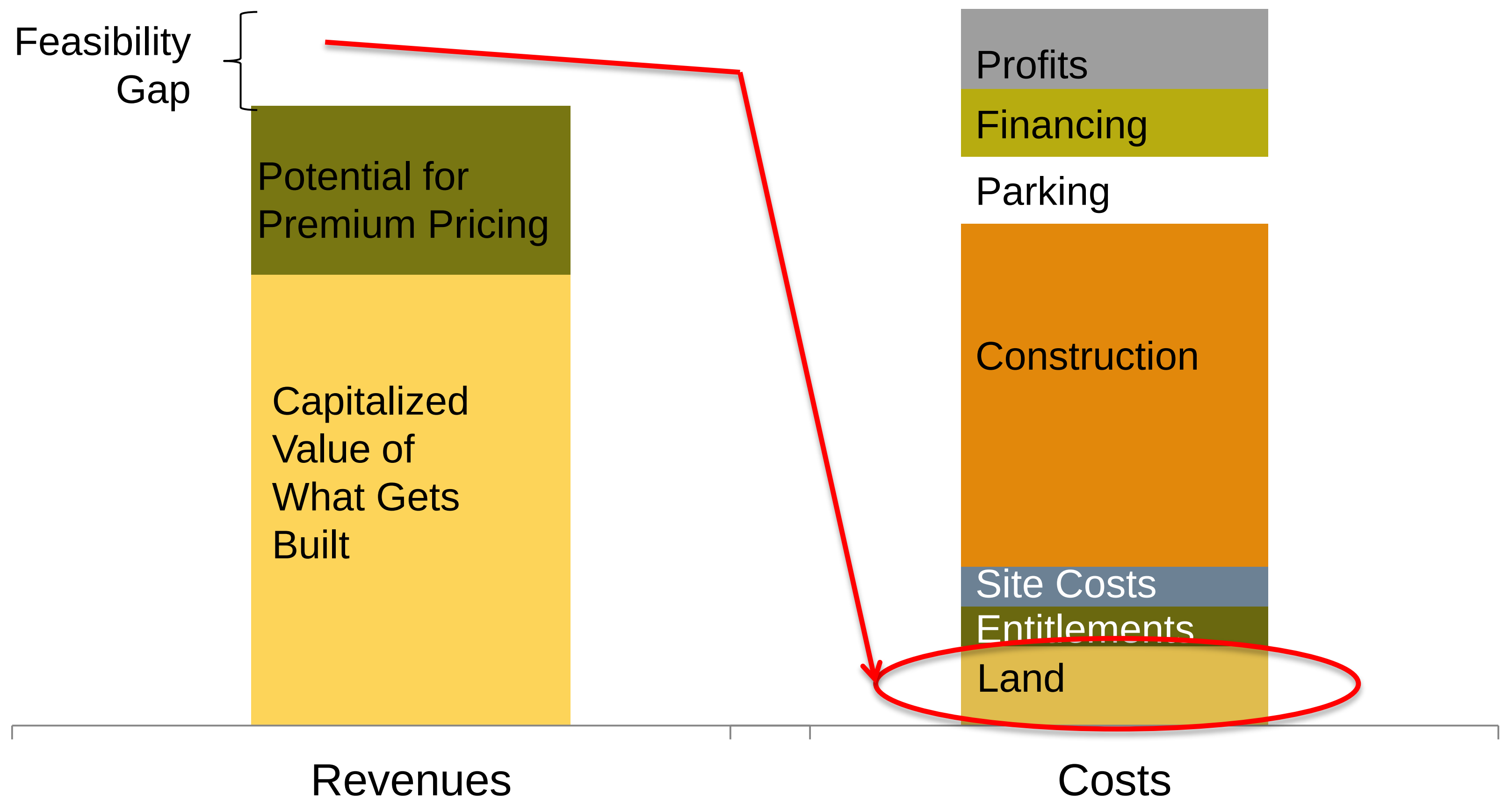
RESIDUAL LAND VALUE – HYPOTHETICAL (IDEAL)



IN REALITY, PROJECTS OFTEN LOOK LIKE THIS



FEASIBILITY GAP CAN OFTEN BE CLOSED BY "FREE LAND" OWNED BY THE PUBLIC SECTOR



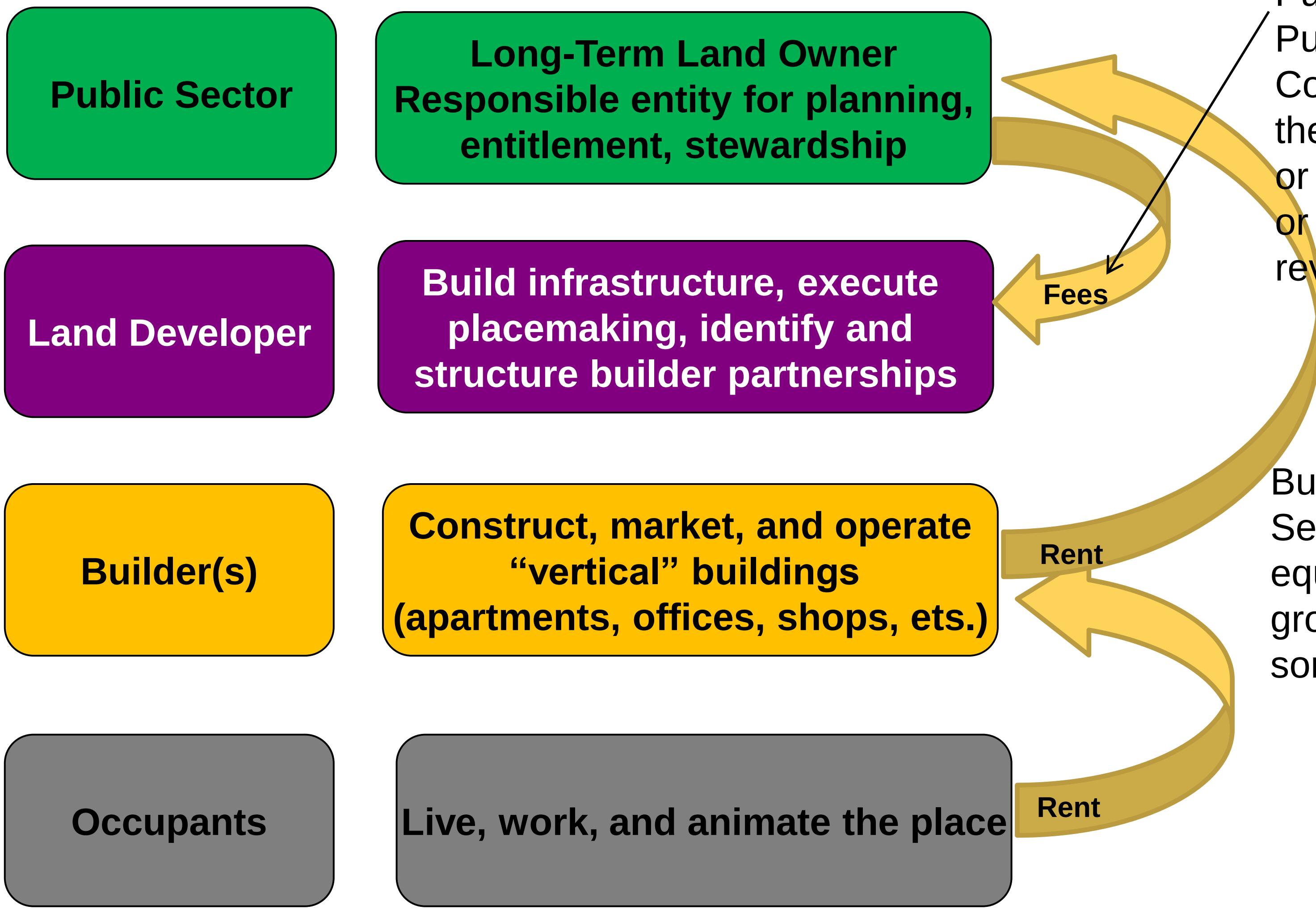
IMPLEMENTATION SCENARIOS – PUBLIC SECTOR AS LAND OWNER

Lower — RISK/REWARD — Higher

Lower — DEVELOPMENT CONTROL — Higher

Deal Structure	**Property Sale**	**Land Lease**	**JV Partnership**	**Fee Developer**	**Direct Ownership**
Description	Sale of parcels within site at a target price	Lease of land to a master developer, who sells or leases to builders	Contribute land into development partnership as limited partner	Public Sector hires builder on a cost plus basis	Create/purchase /hire develop-ment company
Risk bearer	Developer	Developer mostly; some Public Sector	Both members	Public Sector	Public Sector
Share in Profits	Public Sector only receives purchase price amount	Public Sector's lease payment can scale with success	Based on success of project; negotiated	Based on success of project	Based on success of project
Public Sector Development Control	Limited	Limited	As limited partner, based on negotiated deal	Almost total control	Total control

OVERVIEW OF IMPLEMENTATION APPROACH
"STRAW MAN" DEAL STRUCTURE



Public Sector or Quasi-Public Development Corporation could be the master developer, or pay a 3rd party in fee or a share of the revenue

Builders pay Public Sector a "ground rent" equating to a share of gross revenue or some other structure

UNDERSTANDING LEGACY/PROFIT BALANCE NEEDS CRITICAL IN USING LAND AS INCENTIVE

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ROBERT CHARLES LESSER & CO. REAL ESTATE ADVISORS