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COMMITMENT | LEADERSHIP | INTEGRITY

September 18, 2015

J. Edward Smith
Chief Executive Officer
Lido Equities Group, Inc.
218 N. Canon Drive, Suite C
Beverly Hills, CA 90210

RE: Grandview Apartments – Financial Feasibility Analysis

Dear Mr. Smith:

The Sotelo Group, Inc., was engaged by your company to conduct an independent third party financial analysis of the Grandview Apartments which is being developed by Grand View Development, L.P.. The project is located on an under-utilized parcel of land located on the west side of Grand View Blvd south of Washington Place within the City of Culver City. The project, as proposed, will include 36 units of housing and 85 parking spaces.

Pursuant to the requirements of the City of Culver City, Planning Department, the analysis consisted of evaluating the financial feasibility of proposed project. The analysis was done in the context of granting the requested on-menu items pursuant to the Density Bonus Incentives outlined in Chapter 17.500 of the City's municipal code.

The following analysis will demonstrate that the project, as proposed, is financially feasible whereas the alternative development scenario is infeasible and will result in less affordable housing in the City of Culver City.

CONTINUED ...

The two scenarios evaluated by **The Sotelo Group, Inc.** consisted of the following:

- Scenario #1 – 36 units of which 3 units will be affordable based on the granting of a density bonus and two on-menu items:
  - Height Incentive to permit 3 stories;
  - 20% reduction in side yard setback.

  The building is a Type V, three story over subterranean garage structure. The financing for the development is currently in place and available for the developer to commence construction by the end of the year.

- Scenario #2 – 26 units of which none will be affordable due to no density bonus or use of any on-menu items. This would result in a revised structure with two stories instead of three stories over a subterranean garage structure. Financing for this development would require financial restructuring which would likely result in a reduction of available funding, thereby, making the project infeasible.

METHODOLOGY

A detailed proforma for each proposal was prepared and reviewed. A standard development budget/operating proforma assists in the evaluation of the financial feasibility. Further, it addresses major components of a typical real estate transaction by exploring various elements and organizing them as follows:

- Project's total development budget to identify all development costs;
- Projected operating revenue and operating expenses to determine if the development generates positive cash flow;
- Project's potential sources of funding, including debt, grants, and developer equity.

I have concluded that the project as proposed (with the requested on-menu items) is financially feasible and satisfies the City of Culver City's requirements under Chapter 17.500 and the State's Government Code 65915 based upon review of the following aspects of the proformas:

1) Unit Distribution;
2) Production of affordable units; and,
3) Financing/Timing.

EVALUATION OF UNIT DISTRIBUTION

The Grand View Apartments is proposed as a 36 unit apartment complex with 3 stories (37' in height) with one subterranean garage level accommodating 76 resident parking spaces with 9 guest parking spaces. The lot area is 39,000 square feet which when used to calculate density yields 26 units. With the application of the State's Density Bonus (Gov't Code Section 65915), the density can be increased by 35% if 11% of the units are set-aside at very low income targeting. As a result, the proposed project is able to generate 10 more units of which 3 will be set-aside for very low income families.

In exchange for developing 3 units of affordable housing, the developer is able to utilize two on-menu incentives which will facilitate the construction of the proposed 36 units. Pursuant to City's Municipal Code Section 17.500, the developer has elected to request an increase in the height to 3 stories and to implement a 20% reduction in the side yard setback. If these incentives are granted, the developer will build all three-bedroom units to address the housing market within the immediate and surrounding area.

The following is the distribution by unit type:

Unit Type	With Incentives	Without Incentives	Difference
3 bdrm/2.5 ba	35	25	10
Manager's Unit	1	1	0
TOTAL	**36 units**	**26 units**	**10 units**

If the development were revised based on the denial of any on-site menu items, the resulting reduction totals **10 units** as follows:

1) No height incentive will result in the elimination of the top story; and,
2) No decrease in the side yard would eliminate a row of bedrooms.

This loss of 10 units impacts the City's ability to meet its obligation to develop affordable housing as outlined in the following section.

EVALUATION OF AFFORDABLE HOUSING

The construction of the proposed project will result in 36 units of which 3 units will be targeted to very low income families. The construction of the alternative development involves only 26 units with no provision for affordable housing units.

The following is the distribution by unit/bedroom count for each scenario and the difference:

Unit Type	Proposed Development # of bedrooms	Alternative Development # of bedrooms	Difference in Bedrooms
3 bdrm/2.5 ba	105	75	(30)
Manager's Unit	3	3	0
TOTAL	**108 bdrms**	**78 bdrms**	(30)

The loss in bedrooms between the proposed development and the alternative development is a total of 30 bedrooms or nearly 30%. The impact of the reduction would most significantly impact low and very low income families which represent over 40% of the anticipated household growth within the greater Los Angeles County area (according to the State's Department of Housing and Community Development).

In Culver City, the lack of development opportunities to construct new housing and the existence of over-crowded housing conditions, makes the need for building affordable housing imperative. The loss of 30 bedrooms is counterproductive to the City's effort to build more affordable housing. Granting this density bonus would further the City's ability to comply with the obligations it outlines in the Housing Element (Oct. 2013-2021).

Since the demise of the Redevelopment Agencies throughout the State, the funding necessary to build affordable housing has been virtually eliminated. The City of Culver City (like other jurisdictions) is unable to fund the creation of affordable housing and must therefore rely on private parties to assume this burden. In the case of the Grand View Apartments, the developer is able to construct 3 three-bedroom very low income units (for a total of 9 bedrooms) at no cost to the City. If the on-menu incentives are not granted, the development will have to be restructured and the City will lose this ability to create affordability within its jurisdiction.

EVALUTION OF TIMING & FUNDING

The reduction in units/bedrooms outlined in the previous section creates a reduction in income to the project. Because the project is unable to create more units, it will fail to yield a higher gross rental income which in turn will limit its ability to debt service a larger private loan. The results of a drop in income translates into a reduction of private conventional financing by 25%; nearly a $1.2 million decrease which impacts the project's feasibility.

As currently proposed, the Grand View Apartments has all its financing in place and is ready to commence construction upon the issuance of the building permits. Timing is a critical element in the financing any housing development in the State of California and, in particular, in the County of Los Angeles. In order to obtain the necessary funding from the various private sources, developers must commit to commencing and completing construction within a given timeframe. In market rate housing, timing impacts the level of profit and the ability to finance the project altogether. If the developer does not commence construction as committed or misses the completion deadline, it may lose the project's funding.

Lastly, a redesign of the project will add further costs and delays to the timeline and the ability to commence construction. The redesign of the site alone would cause a 6 month delay in the timeline which would mean a completion date of 2017 rather than 2016.

CONCLUSION:

The focus of this analysis was specifically to review the project development budgets/operating proformas. The areas of impact which were reviewed included construction costs; leveraging of non-City financial resources; and the production of affordable units. In my opinion, the waivers requested by your company are necessary to make the project financially feasible.

By allowing Grand View Development, L.P. to build 36 units, the City of Culver City will be leveraging the private funding resources committed to this project to enable it to comply with its obligation to create affordable housing within its jurisdiction at no costs to it. Based on the proposed building design, close proximity to community amenities and delivery of affordable housing, it is reasonable to conclude that the granting of the waivers will not be detrimental to the public welfare or injurious to the property or improvements adjacent to or in the vicinity of the subject property.

Should you have any questions on this analysis or require further information, please do not hesitate to contact me at (213) 406-8060 or via email at Dalila@TheSoteloGroup.Co.

Sincerely,

The Sotelo Group, Inc.

Dalila Sotelo, Principal