Class A Multifamily Amenities:

The Silver Lining of the Housing Bubble

A Research Report

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EXECUTIVE SUMMARY

THESIS

Over the past ten years, there has been an abnormally large shift, in both square footage size and luxury, in the amenities provided in Class A multifamily buildings in the United States. The upfront and operating expenses of these options have increased total costs at a rate far greater than what would have resulted from ten years of rational competition. A detailed return on investment analysis should render these capital expenditures, on a standalone basis, economically unfeasible.

SUMMARY OF FINDINGS

Amenity packages have without a doubt increased in size and stature over the last ten years. The distorted property cycle, that began in 1994 as a result of excess liquidity, and ended in the summer of 2007 with the bursting of the housing bubble, left Class A multifamily developers with an ultra luxurious standard amenity package that has now come to define the product type. However, if even a small rent premium can be captured as a result of including these options and services, they will provide extremely large operating leverage to overall project returns. While highly dependent on local market appetite and building unit count, generally speaking, the decision to include these now standard luxury amenity packages is not only economically feasible, but a solid investment decision.

NOTES ON THE JOURNEY

To begin this report, it is important to note how this thesis was derived. Doing so will speak to the current outlook for Class A multifamily development and hint to the reason amenity packages in certain markets are able to collect such a premium. While searching for a research topic, an observation was made that the luxurious amenities seen in Class A apartments seemed excessive and out of place in the post-financial-crisis environment. There appeared to be an inconsistency between the evidence of a value oriented market sentiment and Class A multifamily product offerings. For example, The Urban Land Institute, which is the largest global real estate forum, released a 2011 outlook publication which states "Coming years will focus on readapting real estate to people's revised goals, priorities, and expectations. We'll be working longer, saving more, and looking for greater efficiencies in how we live and work. Simply put, and Era of Less replaces and era of bigger and more."[11] It then goes on to read, "The future promises more value-oriented development, not ostentatious projects. Tenants will emphasize function and efficiency, and green energy-saving sustainability features will be expected."[11] And yet, the amenities provided by Class A multifamily development seem to be moving in the opposite direction. In an article published in Multi-Housing News in June 2008, which reported on fitness centers in apartment projects in Los Angeles, Chicago, and New York, it states, "Gone are the days when fitness centers in apartment and condo communities were small rooms, with one or maybe two pieces of each type of exercise equipment. Today, these fitness centers are not only bigger but better, and sometimes as good as professionally run gyms."[2] In September of 2009, Jonathan Holtzman, CEO of the Village Green Companies in Farmington Hills, Michigan, told Multi-Housing News, "Design around the concept of ADD – the opposite of minimalism. With MTV and iPod shuffles, our society is now used to receiving a wide variety of stimuli and signals at once."[3] He goes on further to "advise including space that is passive and quiet, too, such as a Zen garden,"[3] suggesting that even if your amenities are overwhelming your tenants, the solution is to add more – not conform to an "Era of Less."

However, upon brief research, it became evident that if there is an amenity related issue facing the multifamily development industry, it does not lie in this apparent market sentiment disconnect. In fact, there really is not a disconnect at all. Research shows that consumers currently view the decision to rent, in and of itself, as a value-oriented choice, regardless of the amenity package that comes with it. In a survey published by Apartments.com on February 22, 2011, prior homeowners were asked their reason for choosing to rent. Second only to relocating for employment, 20.3% of respondents answered that renting is the more affordable option.[14] Other popular responses included, "I cannot afford to keep up with the expenses associated with homeownership (9.2%)" and even "renting is a better investment than homeownership (2%)."[14] In further evidence, on July 24, 2010, Barron's ran a cover story titled, "Renter Nation."[6] The article focuses on the current issues for consumers looking to purchase homes, including low growth in jobs and wages and tougher mortgage underwriting standards, and how, faced with these headwinds, they are choosing to rent. It predicts that the homeownership rate – 66.6% year end 2010[28] – is likely to continue to fall to its 1993-4 level of 64% by 2015, due to this phenomenon.[6] Multifamily development is therefore, by definition, meeting this post-financial crisis, value driven need.

Meanwhile, the initial portion of the original observation, which identified an abnormal surge in amenities in the past decade, stood correct. Research showed that there was clearly an irrational shift towards luxury in multifamily amenities due to the housing boom. Moreover, despite being born out of an extremely abnormal economic environment, these amenities have come to define Class A apartment buildings today. Renters expect them as part of what they consider to be a standard product offering, and, in some markets, they are willing to pay a high premium for them. The following report will walk through the past decades evolution of amenities, analyze both the costs and benefits of them, and ultimately exhibit why so many Class A developers continue to invest in such luxurious packages.

THE PROBLEM

IDENTIFYING THE BOOM IN AMENITIES

In a 2002 Delta Associates property evaluation report, Class A multifamily buildings in the central business district of Washington, DC were defined as:

> Market-rate communities constructed within the last 10 years. In-unit features include the latest trends in multi-family design and architecture, and have become more upscale as the area's economy has boomed. Besides the requisite appliance package (including in-unit washer/dryer), Class A apartments feature a microwave; upgraded finishes (crown molding, ceramic tile flooring in the baths and at the entries); and higher ceiling height. Project amenities tend to be service oriented (eg., concierge services) rather than features such as fitness centers and swimming pools.[1]

While considered luxury and upscale, it is important to highlight, from the definition above, that these project's amenities were largely "service oriented." In 2002, DC Metro Area Class A apartments did not have large scale amenities. What do the amenities in a state-of-the art multifamily development look like, only nine years later, in 2011? A survey taken of ten Class A buildings in the DC metro area provides us with a good idea (see Appendix 1 – Washington DC Metro Area Class A Apartment Survey):

- 100% have Club Rooms, most of which include flat screen HD televisions, video gaming systems, wet-bars, billiards and/or fuse ball tables, and high-tech sound systems including audio mp3 hook ups
- 100% have Fitness Centers with state of the art equipment
- 60% have Yoga Studios that offer group classes to tenants
- 80% have Business Centers – most of which include a separate conference room for in-house work meetings
- 80% have Rooftop Terraces boasting panoramic views, premium landscaping, and gas burning grills for barbeques
- 60% have Pools – most of which are on the rooftop, providing a resort like atmosphere

The past nine years have clearly seen a large surge in both the quantity and quality of amenities multi-family developers are providing, in the Washington DC metro area. Nowhere has the boom been more evident than in New York City. Silver Towers, a 1,359 unit apartment building at West 42nd Street and 11th Avenue, has a 75 foot indoor pool, and a 20,000 square foot spa and fitness center.[4] The Beatrice, a J.D. Carlisle Development Corp. multifamily project that sits atop the Kimpton Hotel in Chelsea, boasts a 4,000 square foot "Cloud Lounge" with 360 degree views of the city, a billiards table, working fireplace, and a large kitchen for parties.[4] The Ashley, a 209 unit apartment building on Riverside South, has a total of 40,000 square feet in amenities, including but not limited to a library, spa, driving range simulator, bowling alley, regulation basketball court, squash court, and a two level climbing wall (the only piece shared with an adjacent condominium building).[4] The Aire, a 309 unit luxury apartment building near Lincoln Center, has two soundproof rehearsal studios to appeal to musicians.[4]

Figure 1: Roof Deck at Silver Towers[31]

Figure 2: Cloud Lounge at The Beatrice[30]

Figure 3: Rock Climbing Wall at The Ashley[29]

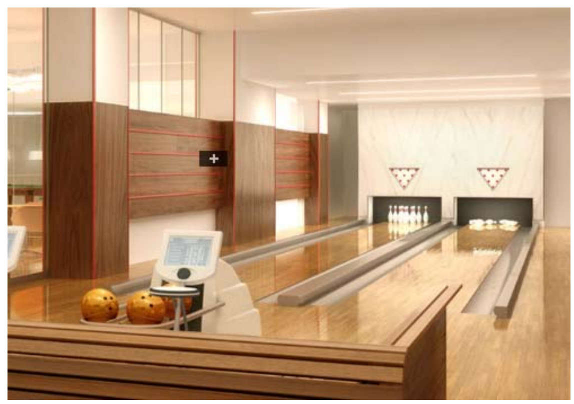

Figure 4: Bowling Alley at The Ashley[29]

There is no arguing that amenities and services available to multifamily tenants will shift overtime to adapt to changes in consumer preferences. The previously mentioned Delta Associates report from 2002, goes on to define Class B buildings as "former Class A properties that due to age, design, and features no longer reflect state-of-the-art multi-family development."[1] In this same report, a table of project amenities, seen below in

Figure 5, exhibits this natural shift in offerings, representing over eighty years of projects from 1918 to 2001.

PROJECT AMENITIES AT SURVEYED APARTMENT PROJECTS DECEMBER 2001											
Class	Project Name	Year Built	Swimming Pool	Party Room	Exercise Room	24-Hour Concierge	Parking Garage	Controlled Access Entry	Valet Service	Courtyard	Rooftop Deck
A	The Gatsby	2001	-	-	-	Y	Y	Y	Y	-	Y
A	The Regent	2000	-	-	-	Y	Y	Y	Y	-	-
B	The Latrobe	1980	Y	-	Y	Y	Y	Y	Y	-	Y
B	Park Square	1940s	-	-	Y	-	-	Y	-	-	Y
B	Dorchester House	1940s	-	-	Y	Y	-	Y	Y	-	Y
B	The Envoy	1918	-	Y	-	Y	Y	Y	Y	-	-
C	The Chastleton	1920	-	Y	Y	Y	-	Y	Y	Y	-
C	2112 New Hampshire	1963	-	Y	-	Y	Y	Y	-	-	Y

Figure 5: Multifamily Amenities in 2001[1]

Of note, while the two Class A buildings (in 2001) had 24-Hour Concierge desks, only the Class B and C buildings had exercise and community party rooms. Today, only nine years later, those exercise and party rooms are not only back in Class A buildings, but as previously described, are far more luxurious. Furthermore, they are joined by a myriad of other amenities, which, for the over eighty years of development described in the sample (albeit small) above, were not even options.

There is no historical inventory list of amenities provided in Class A multifamily properties known to this author. However, from the anecdotal evidence described above, it is clear that beginning around the year 2000, there was an abnormally large shift upwards, in both square footage size and luxury scale, in amenities. A look at economic factors from this period indicates why.

LOCATING THE SOURCE OF THE BOOM

The sudden rise in the number of amenities available in apartment communities in the last ten years is directly correlated to the well documented period of excess liquidity that led to the housing bubble of the early 2000s. While there are many statistics and charts that can be used to sum up this unprecedented time, the focus of this research will be on the national homeownership rate, due to its direct inverse relationship to the rental rate. As defined by the U.S. Census Bureau, the homeownership rate is the rate computed by dividing the number of owner-occupied housing units by the number of occupied housing units or households.[5] The graph in Figure 6 depicts the homeownership rate in the United States from 1980 until today.

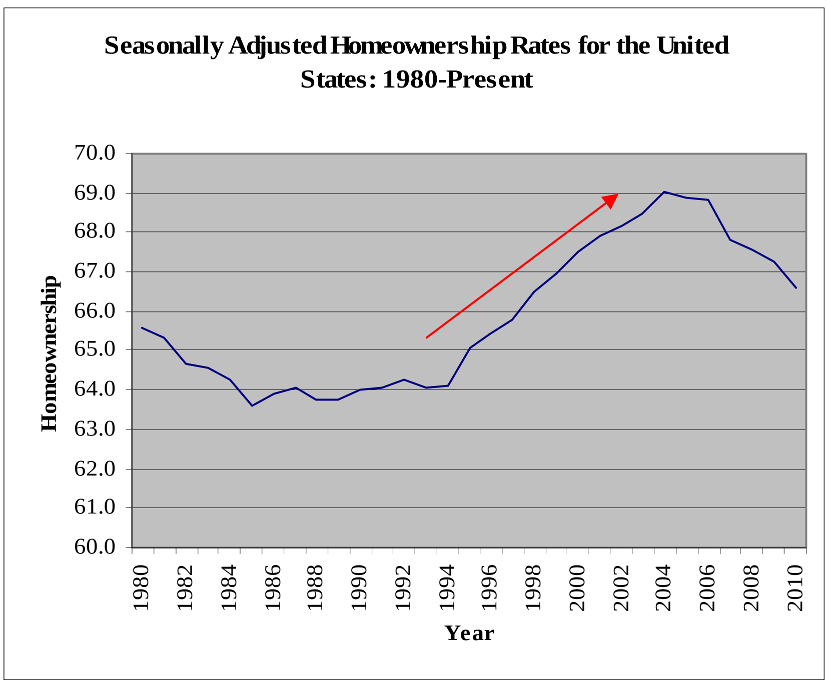

Figure 6: Homeownership Rate[28]

From 1980 until 1994, this rate largely hovered around 64%. Then, beginning in 1995, homeownership began a torrential incline over 10 years, peaking in 2004 at 69%. To put this in perspective, according to the previously mentioned Barron's cover article titled "Renter Nation," every percentage point change in the level of homeownership represents 1.3 million households, and the average household consists of two or more people.[6] This means that from 1994 to 2004, roughly thirteen million people were choosing to own a home rather than rent. As headlines suggest that much of this run up was caused by subprime borrowers (non-Class A renters) entering the market for the first time, Figure 7 looks at the change in homeownership rate by income level as well.

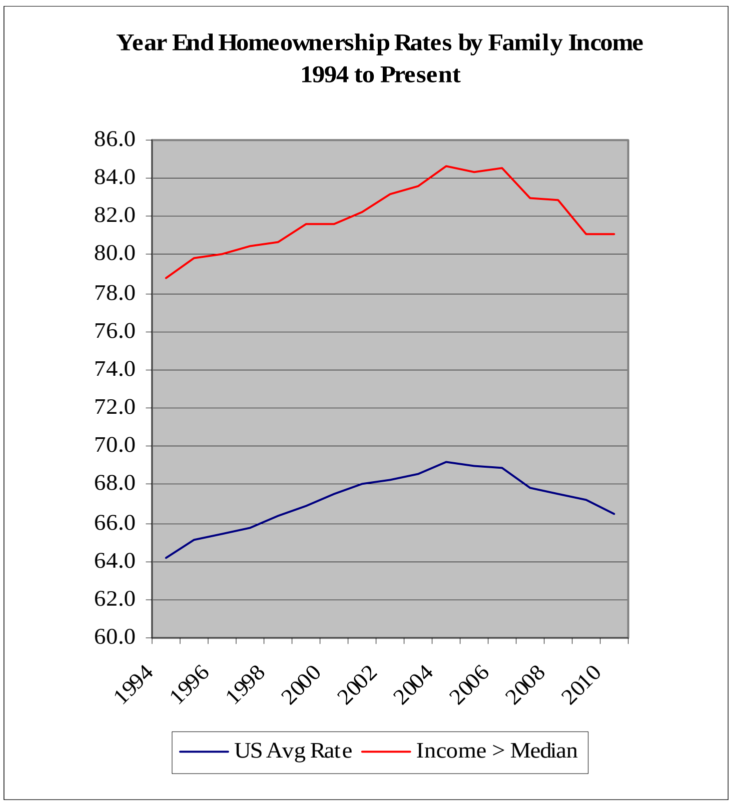

Figure 7: Homeownership Rate by Income[32]

As evidenced above, even households with income levels greater than the median family income, potential Class A renters, participated in this flock towards homeownership from 1994 to 2004. The direct impact from the housing bubble on Class A multifamily development was a heightened competition for renters. In response, developers began focusing on amenities – options single family homes could not provide – to lure tenants.

A look at historical industry publications provides numerous references to this point. In 1999, in a Boston newspaper article titled “Competition for Renters Creates Amenities Boom,” author Roxanna Guilford states, “The focus on amenities reflects changes in apartment dwellers and the nation’s ever increasing desire for luxury….Complexes are now catering to ‘renters by choice’ – young affluent professionals who could easily afford a home, but don’t want to deal with the problems associated with homeownership.”[7] In a February 2000 article in National Real Estate Investor, it states, “With two out of every three families in the United States currently owning the house they live in, according to the Census Bureau statistics, more than ever before, the apartment management community will have to focus its energies on meeting the specialized needs of today’s changing renter.”[8] The article goes on the say “With apartment living fast becoming a lifestyle choice rather than a necessity, apartment professionals need to appeal to the core value and lifestyles of the apartment renter. By targeting this new breed of apartment renter with specialized amenities and conveniences unavailable to single family home owners, the multi family owner and manager can better capture this market.”[8] Three years later, in 2004, National Real Estate Investor put out another article, titled “It’s Show Time for Amenities,” by Matt Hudgins. Hudgins reports on numerous property managers, including, Anthony Rossi Sr., president of Chicago based RMK Management Corp. which oversees over 6,000 apartment units. According to Hudgins, Rossi noticed that while RMK had historically lost 20-25% of its residents to home buying each year, that turnover rate had doubled to between 35% and 40%; “2002-2003 were like a floodgate opening,” Rossi recalls.[9] The article then goes on to outline how, in an effort to convince prospective tenants to chose apartment living over single family homes, owners began to add new amenities unavailable to homeowners, such as Archstone-Smith’s “click cafes” – the part coffee bar, part business center that are so common today.[9]

In less than five years, driven by an extremely abnormal competition with single family homebuyers, these excessive amenities came to define Class A properties. But by 2004, this competition was beginning to fade. In the previously mentioned National Real Estate Investor Article “It’s Showtime for Amenities,” the author reported that “(by 2004) owner and managers say the migration to single-family homes (had) already slowed, and anticipated increases in interest rates (were) expected to push more residents toward multifamily housing and help to firm apartment occupancy.”[9] By 2005, this swing back towards renting was in full effect. Figure 8 shows that the sharp run up in the homeownership rate was followed by a steady, and then steep, decline.

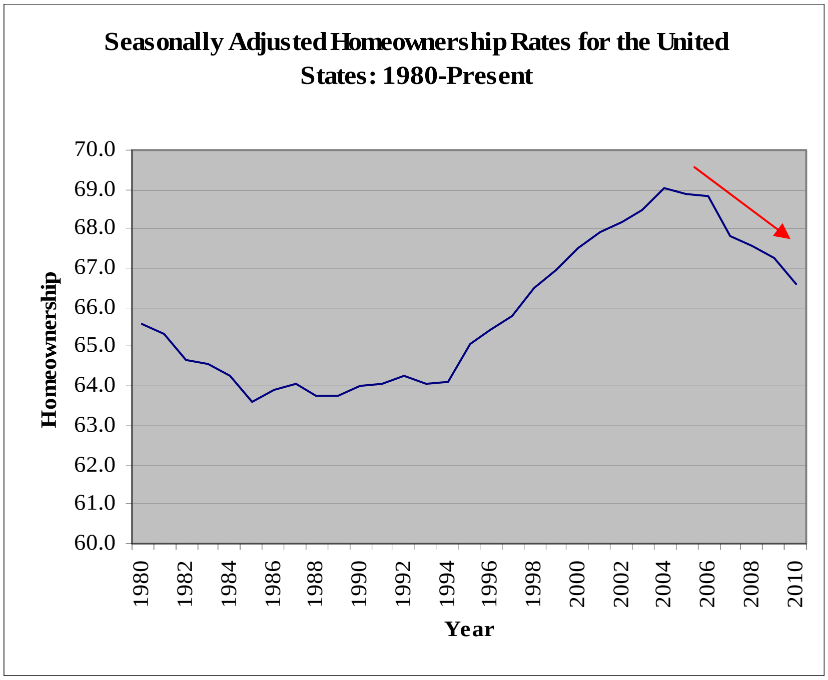

Figure 8: Homeownership Rate[28]

By the summer of 2007, which saw the collapse of the subprime mortgage market, the nation was entrenched in what unfolded to be the largest housing and financial crisis in decades. Single family housing had lost its luster, and the swing back to multifamily housing became even more evident. In an article titled "Attracting the Next Wave of Renters" in Buildings magazine, it states "According to the National Multi Housing Council (NMHC), in July 2007, 55 percent of apartment executives said that the subprime mortgage meltdown and stricter mortgage credit had decreased the number of renters leaving apartments to become homeowners. In January 2008, just 6 months later, that number had jumped to a startling 79%."[10]

CURRENT CLASS A AMENITY MARKET

And yet, despite this swing back towards renting, Class A multifamily development continues to produce a hyper amenitized product. Eighty percent of the properties in the previously mentioned Washington DC survey (Appendix 1 – Washington DC Metro Area Class A Apartment Survey) were delivered in 2008 or later into the post housing bubble market and all exhibit large scale offerings. Differentiation strategies still revolve around adding more instead of focusing on minimizing these inflated costs. In the previously mentioned 2008 Building article, Art Lomenick, managing director at Dallas-based Trammell Crow Co. is asked "What can you do in such an unsteady economy to secure your part of the surging pool of renters?" He answers, "'Exceed expectations. Knowing your target markets, researching and providing top amenities, and providing renters with attentive customer service, are sure ways to make your multi family facility stick out in a renter's market.'"[10]

In order to exceed them, developers need to know what the current tenant expectations are for a standard Class A amenity package. On March 17, 2011, the Jefferson Apartment Group, made a presentation to Delta Associates titled "Amenity Space Programming"[13] The proprietary research presented was based on surveys and feedback from residents collected during prior years of management of over 50,000 Class A apartment units. They conclude that in 2011, the standard "must have" program for a Class A multifamily building includes the following amenities:[13]

- Fitness Center
- Internet Lounge or Business Center

- Free Wi-Fi in Common Areas
- Courtyards or Rooftop Deck with Grilling Areas
- Pub Room with Bar, Seating, and Gaming Tables
- Lobby with Coffee/Juice Bar

These amenities, only ten years after being born from an unprecedented anomaly, have become the bare minimum required to attract Class A renters. Furthermore, to remain competitive, developers need to consider even more choices. The report goes on to say that secondary amenities, options that are sometimes but not always provided, include:[13]

- Pools
- 24-Hour Concierge Desks
- Conference Rooms
- Theater/Screening Rooms
- Dog Parks/Runs
- On-site ATM's, DVD Kiosks & Vending Machines

And to really exceed expectations, new items that have been "well received" are:[13]

- Community Kitchens
- Outdoor Fire Pits
- Yoga Studios
- Soundproofed Music Rooms
- Dog Washing Stations
- Gaming Stations
- Water Features/Spouts
- Rentable Garden Areas

THE PROBLEM

Do developers truly need to provide these products to stay competitive? If so, what has this abnormal shift in tastes and preferences meant for project and operating costs? What is the overall return on investment in amenity packages, and, on a stand alone basis, do they make economic sense?

MARKET OUTLOOK

NATIONAL MARKET OUTLOOK – CLASS A MULTIFAMILY

Before any Class A multifamily amenity data is evaluated, it is important to have an overall idea as to the economic climate of the market in which it was collected. The United States economy is slowly recovering from the sharp downturn seen in 2009 from the Great Recession. 2010 saw four consecutive quarters of growth in both GDP and private sector jobs.[21] Personal income increased 3.6% year over year and consumption grew 2.2%.[21] However, unemployment remains high at 8.8% as of March 2011.[26]

Despite the nascent national recovery, multifamily development has seen improving market fundamentals attributed to the falling rate of homeownership and strong demographics. Though still not back to its historical average of 64%, the homeownership rate has fallen from its peak of 69% to a current 67% - adding 3.4 million households to the renter pool.[22] This trend should persist as a result of tougher mortgage underwriting standards and higher interest rates, which continue to make homeownership less attractive. In addition, general demographics has given demand in the industry a boost as the largest wave of 22 year olds seen in the past decade began moving into apartment buildings in 2009.[27] This surge of young renters is expected to peak in 2012 and will most likely not be looking to buy until 2015.[27]

The above fundamentals led to a national apartment vacancy rate of 6.6% and an effective rent increase of 2% in 2010.[21] And these numbers should continue to strengthen as net absorption of 160,000 units in 2010 surpassed units delivered by 101%.[22] The Capital Markets are forecasting continued improving market fundamentals as well.

Construction forecasts are up 6% in 2010 - versus down 17.7% in 2008 and down 18.6% in 2009.[24] In its "IRR - Viewpoint 2011," Integra Realty Resources, Inc. reports an average urban multifamily capitalization rate of 7.18% - and notably reports that 59.6% of investor respondents expect this cap rate to continue to decrease (with only 2% expecting it to increase).[24] Echoing this confidence in the industry, in Marcus and Millichap's special report, "2011 Real Estate Investment Outlook: Investor Confidence Surges" it states that 72% of respondents (multifamily investors) think now is the time to buy apartments and 61% expect value to rise by an average of 4.8% in 2011 alone.[23]

LOCAL MARKET OUTLOOK – WASHINGTON DC METRO AREA

> (Note: This report has largely focused on nationwide observations on the amenities provided in Class A multifamily projects. However, in order to run a proper return analysis, many detailed assumptions will have to made, therefore a more narrow market must be identified. Since the Washington, DC metro area is local to this author, it has been chosen as the study market, as it provides a platform with more available data than other markets could. Once all data has been analyzed, a sensitivity analysis will be run that can be used as a guide to thinking about amenity returns in other markets.)

The greater Washington DC area has been relatively insulated from the drastic economic downturn that has plagued the United States as Government & Government related jobs have helped stabilize the real estate market. According to the previously mentioned

Integra Realty Resources, Inc piece, “IRR – Viewpoint 2011,” the DC metro area is currently at the end of its recovery stage and entering into expansion.[24] This period in the cycle is marked by “decreasing vacancy rates, moderate/high new construction, high absorption, moderate/high employment growth, and medium/high rental rate growth.”[24]

Stabilized vacancy for Class A apartments in the DC metro area is 3.4% - down from 4.3% a year ago (and compared to the national 6.6%).[25] Rents for Class A apartments were up 7.8% in 2010 versus a decline of 1.7% the year before – and 64% of this increase was in the form of effective rent increases, with the balance from a reduction in concessions.[25] Leasing concessions in Class A buildings average 3.5% of face rent – compared to 7.2% at the end of 2009.[25] There are currently 31 new construction projects in lease up and the total pipeline for new construction was 23,880 units as of the end of 2010 (versus 16,606 units at the end of 2009).[25] 2010 saw a robust return of local investment activity in the capital markets with $1.8 billion in existing and $12.4 million in land development spent on Class A apartments and condominiums.[25] This was five times the amount of activity seen in 2009 and the average price per unit is $329,000 – with cap rates at 5.29% at the end of 2010 (vs. a peak at 7.30% in the summer of 2009).[25]

BACK OF THE ENVELOPE ANAYLSIS

Now that the market has been defined, a quick back of the envelope look at an operating budget for a Class A, 250 unit, building in the Washington DC metro area, proves that developers must provide a full amenity offering to remain competitive. Of important note, net operating income for a planned non-amenitized building must remain equal to or greater than that of a building with a full package for the developer to win the bid on the land – so necessary rent reductions cannot exceed any costs saved. In addition, a rational tenant, considering the option to lease in one building that has a full amenity package, and another that does not, will base his or her decision on price. Therefore if a developer is considering not including a full scale amenity package, and wants to remain competitive, the cost savings must be significant enough that they can be passed on the to the tenant in the form a noticeable rent reduction.

Exhibited in Figure 9 below, a back-of-the-envelope operating budget was generated to show one years net operating income for a 250 unit Class A multifamily building with a full scale amenity package (See also Appendix 2 – Back of the Envelope 1 & 2). It was then adjusted to show what it would look like without the amenities. A generous 30% reduction on two key operating expenses has been applied to the budget that does not have amenities (we will later see that this reduction is too high). However, even at a 30% reduction in operating costs, the decision to not include amenities only results in $0.68/sf, or $574 per year, per tenant.

Units	250						
SF	250,000						
Income	Annual	% of GPI	Per SF Old	Per SF New			
Gross Potential Re	6,081,250		25.00	24.33	*Reduced by Total OpEx Savings		
Loss to Lease	(60,813)	-1.00%					
Vacancy	(304,063)	-5.00%					
Concessions	(304,063)	-5.00%					
Net Rental Income	5,412,313						
Parking Income	450,000						
Other Income	40,625						
Effective Gross Income	5,902,938						
Variable Expenses							
Leasing & Adverti	121,625	2%					
Administrative	125,000		0.50				
Utilities	187,500		0.75				
Turnover Expense	62,500		0.25				
Management Fee	177,088	3%					
			Old	New	Decrease of:	Tenant Impact	
Repairs & Maint	131,250		0.75	0.53	30%	avg sf	850
Payroll	262,500		1.50	1.05	30%	$ Savings /sf	$ 0.68
				0.68	Total Savings	$ Savings /mo	$ 48
						$ Savings /year	$ 574
Total Variable Expenses	1,067,463						
Gross Operating Income	4,835,474						
Fixed Expenses							
Real Estate Taxes	500,000						
Insurance	75,000						
Total Fixed Expenses	575,000						
Net Operating Income	4,260,474	*Must stay constant for developer to remain competitive					

Figure 9: Back of the Envelope Analysis

A previously defined standard amenity package in a Class A multifamily building includes: a club room, fitness center, a 24 hour concierge desk, and a business center. Assigning a monetary value to each of these separately is difficult, however taking the fitness center alone it is clear that the $574/year savings created is not large enough to lure tenants. Fitness First is a full service gym operating across the DC metro area. The current rate for a standard membership is $25 per month plus an $125 initiation fee – or a total of $425 for the first year year.[20] Potential tenants, with the option to pay $425/year for a public fitness center, or $574/year for a fully amenitized building (which includes but is not limited to a private fitness center), would no doubt choose the latter. This approach quickly renders a non-amenitizied product in Class A multifamily, in the DC metro area, unfeasible. The following in-depth analysis will show the actual returns on investment these amenities see and the type of market it takes to have them make sense on a standalone economic basis.

AMENITY PACKAGE TOTAL PROJECT COSTS

A detailed analysis on an investment in amenities requires a careful look at which costs are *additionally* incurred versus those that would be included in an apartment budget regardless of the decision to include a full package. To begin, it is assumed that a 250,000sf, 250 unit, Class A multifamily urban project, in the Washington DC metro area, is being budgeted. The building will include a state of the art fitness center, business center, conference room, club room, and lobby/lounge area with a 24 hour concierge desk – a previously defined standard Class A amenity package. The project costs – the initial capital expenditures involved – associated with this package will incrementally affect both the hard and soft costs that go in to creating this budget.

A typical top of the line amenity package for a 250 unit Class A multifamily building ranges in size from roughly 5,000 to 6,000sf.[15] The first hard costs to consider are those spent to finish out this space by painting the walls, covering the floors and ceilings, and adding the appropriate levels of finishes for each use. In speaking with three separate local developers, all agreed this blended cost will range from $75 to $100 per square foot.[15, 16, 17] The fitness center, typically 1,500sf, will have the lowest level of finishes, with an inexpensive rubber flooring, exposed ceiling, and paint to cover the walls.[15] The lobby will represent the other end of the spectrum, as ultra high end specifications will be expected to lure tenants into the building. Robbie Brooks, Director of Development at Jefferson Apartment Group, was able to break this down as follows:

		Budget	SF	Per/SF	Per/Unit
Cost to Finish Out Space					
(paint, flooring, finishes etc)					
Fitness Center		37,500	1,500	25.00	150
Business Center		5,000	100	50.00	20
Conference Room		10,000	200	50.00	40
Club Room		150,000	2,000	75.00	600
Lobby/Concierge		350,000	2,000	175.00	1,400
Forgone Rent?	No	-	-	75.00	
SubTotal		552,500	5,800	95.26	2,210
(Budget Adjustment)*		(203,000)	5,800	(35.00)	812
Total		349,500	5,800	60.26	1,398

Figure 10: Amenity Budget to Finish Out Space

Of note, a total of 5,800 square feet is allotted for amenities. This space would still need to be finished in a non-amenitized building, regardless of its use. To adjust for this factor, $35/sf has been used which is a blend between space that would be left relatively unfinished at $25/sf (eg. storage units)[16] and a small, low budget, $50/sf,[16] front lobby. (Note: For initial assumptions, it is assumed that, at 250 units, allowable unit count is maximized and only non-rentable square footage (eg. below grade) is used for amenities. Therefore no finishes for additional rentable units have been counted in this adjustment.

In the sensitivity analysis, the notion that this space could be used for rentable units will be examined).

The other hard costs involved in a top tier amenity package are those incurred for furniture, fixtures, and equipment. These numbers total $290,000 and are outlined in Figure 11. Of note, they are adjusted by $20,000 – the cost of a couple couches, chairs, a rug, and side tables – for money that would have to be spent to furnish a small lobby even if amenities were not included in the project

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	Budget
Furniture, Fixtures, Equipment	
Fitness Center	40,000
Business Center	15,000
Conference Room	25,000
Club Room	80,000
Lobby/Concierge	50,000
Order and Installation Fees	30,000
Misc Common Area	20,000
Audio/Visual Package	50,000
(Budget Adjustment)*	(20,000)
Total	290,000

Figure 11: Amenity FF&E Budget

Total adjusted, amenity specific, hard costs are therefore $639,500 (cost to finish, plus FF&E).

Soft costs include those incurred for a best in class interior design package as well as the increase in construction interest and development fees from the increase in the overall project budget. For the design package, $70,000[15] is assumed and is then adjusted by $20,000[15] for the amount of time that would spent focusing in hallways (common areas not considered amenities) and $10,000[16] further for the standard cost of hiring a designer for a small lobby area only.

Assuming that debt is used to finance this project, the construction interest will vary directly with the overall costs. In speaking with a representative at United Bank, the loan limit on a construction loan for a local Class A multifamily building would be 70 percent of the total project cost.[18] For a proven borrower, with a solid balance sheet, the interest rate would be based on LIBOR plus 250 basis points – roughly 2.75% today.[18] This rate would vary, adjusting monthly, and the loan would be interest only. There would also be an origination fee of 50 basis points.[18] The standard time to completion for the construction of a 200+ apartment project is roughly 18 months, the time to full lease up is 16 months (detailed later), and the weighted average loan balance outstanding each month can be assumed at 55% (See Appendix 3 – Assumptions).[16] The total incremental construction loan interest cost from the capital expenditures for a Class A amenity package is therefore roughly $30,000 (the total project cost of ~700,000, multiplied by a 55% average outstanding loan balance, multiplied by 2.75% divided by twelve, multiplied by 34 months; See Figure 12).

The development fee will increase with the total project cost as well. At a standard 3%,[16] these incremental costs are $22,000 (3% multiplied by the total project cost). Adding all the soft costs with the hard costs outlined above, a total project cost of $731,750 can be derived. Note that if the 70% loan to cost construction financing is used, this results in an initial equity outlay of $219,525.

PROJECT COST BUDGET					
		Budget	SF	Per/SF	Per/Unit
HARD COSTS					
Cost to Finish Out Space					
(paint, flooring, finishes etc)					
Fitness Center		37,500	1,500	25.00	150
Business Center		5,000	100	50.00	20
Conference Room		10,000	200	50.00	40
Club Room		150,000	2,000	75.00	600
Lobby/Concierge		350,000	2,000	175.00	1,400
Forgone Rent?	No	-	-	75.00	
SubTotal		552,500	5,800	95.26	2,210
(Budget Adjustment)*		(203,000)	5,800	(35.00)	812
Total		349,500	5,800	60.26	1,398
Furniture, Fixtures, Equipment					
Fitness Center		40,000			
Business Center		15,000			
Conference Room		25,000			
Club Room		80,000			
Lobby/Concierge		50,000			
Order and Installation Fees		30,000			
Misc Common Area		20,000			
Audio/Visual Package		50,000			
(Budget Adjustment)*		(20,000)			
Total		290,000			
TOTAL HARD COSTS		639,500			
SOFT COSTS					
Marketing					
Class A Interior Design Package		70,000			
(Budget Adjustment)*		(30,000)			
Total		40,000			
			Avg % Outst Loan Bal		plug to match
Construction Interest @	2.75%	30,000	55%		30,436
Finance Costs @	50bps	250			256
Developer Fee @	3%	22,000			21,953
TOTAL SOFT COSTS		92,250			
TOTAL PROJECT COSTS		**731,750**			

*Budget adjustments made for costs that would be incurred regardless of amenity package

Figure 12: Amenity Project Cost Budget

OPERATING COSTS OF A FULL SCALE AMENITY PACKAGE

Turning to the ongoing operation of running a full scale amenity package, there are three variables that need consideration. First, maintenance and upkeep of these areas, second, the incremental overhead involved in staffing a 24-hour concierge desk, and third the increase in management fees resulting from the overall increase in effective gross income. Contrary to initial projections, the increase in maintenance and cleaning costs will be negligible. This is because typical apartment operating budgets will base these two items on unit count, not square footage, or hourly salaries.[15] As it is assumed the unit count will stay the same regardless of the decision to include amenities, there is no incremental cost in this category.

Overhead assumptions for a 24-hour concierge assume three full time employees need to be hired.[15] Two would be daytime, service oriented staff, who would likely demand salaries of roughly $35,000.[15] The third, would be an off hours employee for the night shifts, whose focus would be on security, and salary would be about $20,000.[15] When compared to a non-doorman/front desk serviced apartment building, a 24 hour concierge desk will increase total operating expenses by $90,000 a year.

Lastly, management fees are collected as a percentage of effective gross income. Discussed in detail in the following section (Revenues: Rental Premiums and Amenity Fees), total annual incremental gross rental income from offering a full scale amenity package, in the Washington DC metro area, is $1,374,557.

Appling a 5% vacancy rate, a 5% concession rate, and a 3%[16] management fee to this number will increase operating expenses by $37,113. Total annual operating expenses related to a full scale amenity package are therefore $127,113 ($90,000 in concierge overhead plus $37,113 in management fees).

Operating Expenses				
Maintenance/Cleaning				-
	Time/Type	Total Employed	Ann Salary	
Concierge Overhead	Day/Service	2	35,000	70,000
	Night/Security	1	20,000	20,000
Annual Overhead				90,000
Management Fee	3%			

Figure 13: Amenity Operating Expenses

REVENUES: RENTAL PREMIUMS AND AMENITY FEES

A return on investment analysis cannot be conducted without first determining what portion of total income results from the inclusion of a full scale luxury amenity package. There are two forms of income from Amenities – rental premiums and amenity fees. Close property comparisons – between Class A multifamily buildings that have a full range of amenities and like-kind condominiums-for-rent that do not – can provide a good idea of the premiums these options collect. In an effort to fully represent the Washington DC metro area, five subject and comparable properties, in five separate submarkets, were matched:

1. Columbia Heights – View 14 and 1414 Belmont St NW (0.1 miles apart)

2. Penn Quarter – Mass Court and 809 6th Street NW (0.5 miles apart)

3. U Street Corridor – The Ellington and Union Row Condos (0.2 miles apart)

4. Chevy Chase – Wisconsin Place and Chase Point Condos (0.2 miles apart)

5. Clarendon – Lyon Place and The Hartford (0.2 miles apart)

Careful consideration was taken to pick very similar units in terms of exact location (both submarket and floor level), year built, product type (beds/baths, traditional vs. contemporary), finishes, and parking availability. When appropriate, adjustments were made in each of these categories to make the pairs truly comparable. This report will walk through the logic used for one pair, however full summary tables, as well as maps and photographs, for each pair can be found in Appendix 5 – Comparables.

Subject # 1

View 14 is a nine story, 178 unit, state of the art Class A apartment building that was delivered by developer Level2 in 2009 (See Appendix 1 – Washington DC Metro Area Class A Apartment Survey). At 2303 14th Street NW, it is located just north of the U Street Corridor, and just south of the Columbia Heights metro station. It offers a full range of amenities including a club room, media lounge, fitness center, yoga studio, business center, rooftop terrace, and a 24 hour concierge desk. In unit finishes include, granite countertops, maple cabinets, stainless steel Frigidaire appliances, electric stovetops, and wood laminated floors. The low range (lower floor) asking rent for a 1,352sf, 2 bed/ 2 bath, unit is currently $4,392 – or $3.25/sf.

Figure 14: View 14[44]

Figure 15: View 14[44]

Comparable #1

Directly across the street, at 1414 Belmont St NW #313, there is a luxury 2 bed/ 2 bath, 809sf, condominium, for rent.

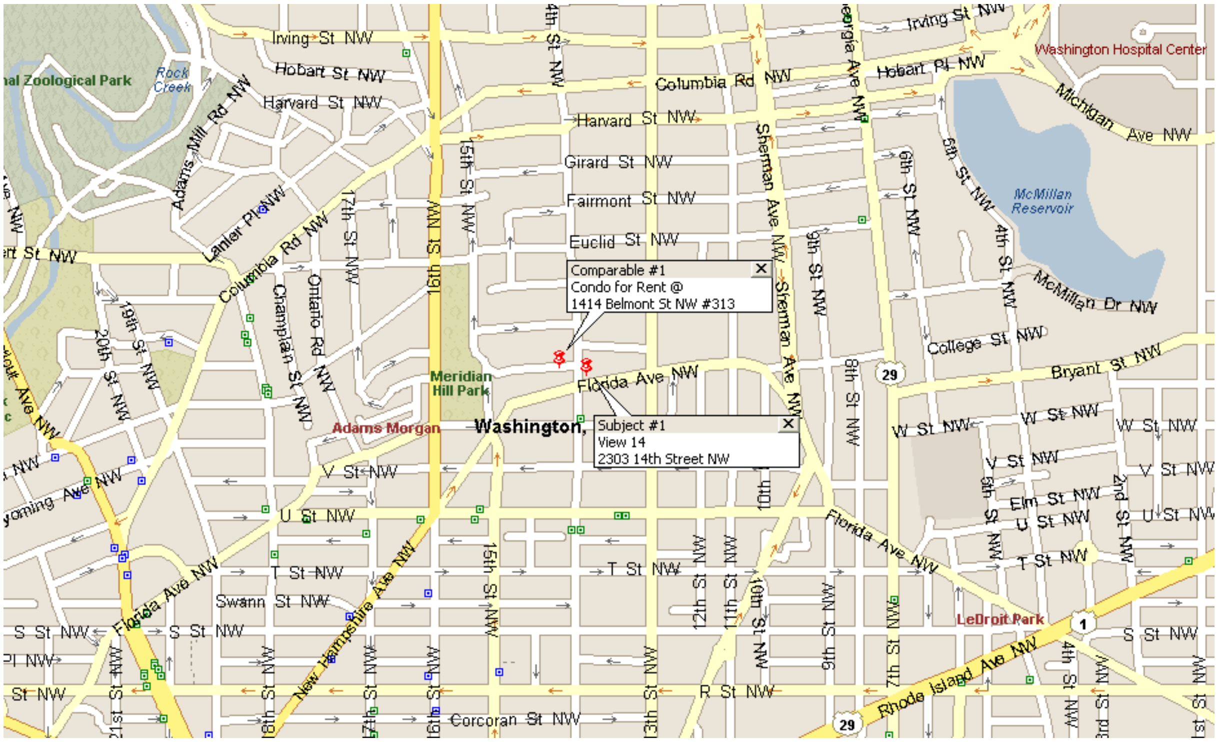

Figure 16: Map of Subject #1 and Comparable #1

The 5 story building was built in 2009 and provides no amenities. Unit features are similar to those at View 14 including hardwood floors, stainless steel appliances, and an electric stove. The owner is asking for $2,600 a month, or $3.21/sf, and notably, parking is included in the rent.

Image **1** of **5**

1414 BELMONT ST NW #313, WASHINGTON, DC 20009

ML#: DC7545757	LP: $2,450
Status: RENTED	DOMM/DOMP: 41/41
Adv Sub: COLUMBIA HEIGHTS	
Ownership: Condo	Total Taxes:
Contract Date: 16-Apr-2011	Close Date: 17-Apr-2011
Close Price: $2,400	Seller Subsidy:
Date Avail: 07-Mar-2011	Ground Rent:
Type: Hi-Rise 9+ Floors	Area:
Style: Contemporary	ADC Map Coord: 000
BR/FB/HB: 2/2/0	Yr Blt: 2009
Lot AC/SF: /	HOA/CC Fee: /0.0
SQFT-Tot Fin: 809	Tax Living Area: 809
Lvls/Fpl: 1/0	Vacation Y/N: No
Construction: Brick	
Basement: No,	
Parking: Garage	
# Gar/Cpt/Assgn: 1//	
Heat/Cool: Electric/Forced Air/Electric/Central A/C	
Water/Swr: Public/Public Sewer	
List Date: 06-Mar-2011	Update Date: 16-Apr-2011

Company: Mdv Realty

Remarks: Newer condo building. Close to many amenities. Stainless appliances. Granite counter top

Directions: Up 14th street to Belmont

Figure 17: MRIS Listing for 1414 #313 Belmont Street NW, Washington, DC 20009[33]

Summary #1

In order to make these two properties comparable, for the purpose of determining the rent premium paid for View 14's amenity package, one adjustment needs to be made. The condo #313 at 1414 Belmont St NW includes parking in the asking rent where the unit at View 14 does not. Parking at View 14 costs $175 a month. Applying this same number, the condo monthly asking price is reduced by $0.22/sf, for a total adjusted asking rent of $2.99/sf ($3.21-($175/809sf) =$2.99).

Once the two properties, one with amenities and one without, are comparable, it is simple subtraction to find the value assigned to these amenities. Taking the apartment price of $3.25 and subtracting the condo-for-rent price of $2.51, it is apparent that the amenity package provided at View 14 is commanding a large $0.25/sf, per month, rental premium.

Subject #1				**Comparable #1**			
Name	View 14	Year Built	2009	Name	N/A	Year Built	2009
Address	2303 14th Street NW	Floors	9	Address	1414 Belmont St NW #313	Floors	5
City	Washington	Number of Units	178	City	Washington	Number of Units	unknown
State	DC	Class	A	State	DC	Class	Lux Condo
Zip	20009	Unit Type	2 Bed/2 Bath	Zip	20009	Unit Type	2 Bed/ 2 Bath
Submarket	N. U St/Columbia Heights	Asking Rent/Mo	4,392	Submarket	N. U St/Columbia Heights	Asking Rent/Mo	2,600
		Unit Size (SF)	1,352	Distance from Subject	0.1 miles (directly across st)	Unit Size (SF)	809
		Asking Rent/SF	3.25			Asking Rent/SF	3.21
Amenities: Club Room, Media Lounge, Fitness Center, Yoga Studio, Biz Center, Roofdeck, 24 Hour Concierge				Amenities: None			
				(Source: Metropolitan Regional Information Systems, Inc.)			
				Summary #1			
(Source: View 14 Website, property tour, Cushman Wakefield OM, Rent.com)				Asking Comp Rent/SF	3.21		
				Adjustments			
				Parking	-0.22	Note: $175/mo	
				Total Adjustments	-0.22		
				Adjusted Rent/SF	2.99		
				View 14	3.25		
				Amenity Premium	0.25		

Figure 18: Amenity Rent Premium: Subject and Comparable #1

This same exercise was conducted in 5 submarkets (See Appendix 5 – Comparables) and the following summary exhibits the results:

Rent Premium Summary	
Submarket	Premium
Columbia Heights	0.25
Penn Quarter	0.49
U Street Corridor	0.89
Chevy Chase	0.30
Clarendon	0.76
Avg Rent Premium	0.54

Figure 19: Rent Premium Summary

While many assumptions had to be made to determine these exact values, what is clear is that in the DC metro area, regardless of the submarket, the decision to include amenity packages in large Class A multifamily projects, results in significant premiums, in just the rental rate alone. Applying the average of these monthly premiums, \$0.54, to the 250 unit building, with an average net rentable square footage of 850 (85%[16] net rentable factor multiplied by the 250,000sf building), a \$458/month or \$1,374,557/year in rent premium from amenities is derived (See Figure 20).

And developers are collecting even more revenue from them these amenities in the form of fees. Amenity fees are either annual or one time fees that developers charge tenants as additional income for providing these spaces and services (Note: For the purpose of this study, amenity fees are a one time fee, not annual, as this was found to be the most common case in the local market).[17] The current average market rate for amenity fees is \$500 (See Appendix 1 – Washington DC Metro Area Class A Apartment Survey), however, the market willingness to pay these fees has shifted dramatically from year to year as they are among the first items to be reduced in concessions.[15] An average $250 fee is therefore used when conducting a full ten year operating budget. Applying this number, to 250 units, at the industry standard 65% annual turnover rate,[16] amenity fees collected total $40,625 per year. Total gross annual income that can be associated with a full scale amenity package is therefore $1,415,182 ($1,374,557 in rent premiums, plus $40,625 in fees = $1,415,182).

Revenue				
	# of Units	Average NSF	Rent/NSF	Avg Rent/Mo
Rent Premium	250	850	0.54	458
Annual Rent Income				1,374,557
	# of Units	Turnover/Yr	Fee	
Amenity Fee	250	65%	250	
Annual Addl Income				40,625
Total Annual Income				1,415,182

Figure 20: Amenity Gross Revenue

AMENITY RETURN ANALYSIS

With incremental revenues and operating expenses defined, net operating income from a standard amenity package and a ten year discounted cash flow is derived (See Appendix 6 – Pro Forma). Of note, after construction is complete, it is assumed that lease up will be at the rate of 15 units a month.[16] Adjusting for vacancy, this means the 250 unit building will take roughly 16 months to become fully stabilized (250 units reduced by a 5% vacancy factor, divided by 15). During this time, it is assumed that only two employees will be hired for the 24-hour concierge and operating expenses are adjusted accordingly (See Appendix 7 – Lease Up Schedule). Once stabilized, vacancy is assumed at 5%, and both revenues and operating expenses are escalated at 2% for ten years to adjust for inflation.

Assuming the building is sold at the end of the tenth year of stabilization, a 6.5% capitalization rate is applied to eleventh year net operating income for a reversion value of $21,578,321 (after adjusting for closing costs of 3%). As a reminder, this is the portion of the reversion solely associated with the value of the amenities in the building – not the total overall sale price. The average Washington DC metro area Class A amenity project cash flows, yearly cash on cash returns, internal rate of return, and net present value can now be summarized as follows:

Unlevered CFs ($000)	Year -2	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Initial Equity Req	(702)												
Operating CFs	-	71	800	1,151	1,174	1,197	1,221	1,245	1,270	1,296	1,322	1,348	1,375
CF from Reversion													21,578
Closing Costs													(647)
Unlevered CFs	(702)	71	800	1,151	1,174	1,197	1,221	1,245	1,270	1,296	1,322	1,348	22,953
cash on cash return		*10%*	*114%*	*164%*	*167%*	*171%*	*174%*	*177%*	*181%*	*185%*	*188%*	*192%*	*3271%*
Unlevered IRR	84%												
NPV	15,241	10%											

Figure 21: Amenity Specific Unlevered Cash Flows

For the average 250 unit, urban Class A multifamily project in the Washington area, the decision to include a luxury amenity package will result an internal rate of return of 84% and at a 10% hurdle rate, net present value is $15.2 million dollars.

And these are unlevered returns. If the developer chooses to use debt to finance the project, as is often the case, in addition to the construction loan previously described, a permanent loan will be used to underwrite the project upon stabilization. In speaking with the a broker at Walker and Dunlop, the following assumptions for a 10 year term permanent loan are made:[19]

FINANCIAL ASSUMPTIONS	
Permanent Loan	
Stabilized Value	17,701,739
L-T-V	75%
Max LTV	13,276,304
DSC	1.25
Max DSC	13,144,466
Total Loan	13,144,466
Rate	5.75%
Points	1.00%
Amort	30
Debt Service/Mo	(76,708)
Debt Service/Yr	(920,490)
Stabilization Cap Rate	6.5%
Reversion Cap Rate	6.5%
Closing Costs	3%

Figure 22: Permanent Loan Assumptions

Of note, the total allowable loan amount will be the minimum of the loan to value ratio of 75% (value determined by dividing Year 1 stabilized net operating income by a 6.5% capitalization rate), and debt service coverage of 1.25. This being the case, the total permanent loan value – specifically associated with an investment in amenities – is $13,144,466 and annual debt service is $920,490. Upon construction loan take out, $12,632,241 could potentially be cashed out and this assumption has been included (difference between permanent loan value and total principal of the construction loan. Note: As a reminder, this model only includes the additional net income related to amenities. In most circumstances there would be non-amenity related expenses that would normalize this large discrepancy in value between the construction and permanent loan. However, this potential refinance cash flow serves to highlight the operating leverage created by including amenities – which will be discussed in detail in the Sensitivity Analysis). At the end of the 10 year hold period, the $21,578,321 reversion cash flow, is reduced by $10,925,700, the principal balance remaining on the loan at this time, and adjusted for 3% in closing costs. Levered project cash flows, yearly cash on cash returns, internal rate of return, and net present value can now be summarized as follows:

Levered CFs ($000)	Year -2	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Initial Equity Req	(220)												
Operating CFaDS	-	71	800	99	253	277	301	325	350	375	401	428	455
CF at Refi				12,632									
CF from Reversion													21,578
Loan Balance													(10,926)
Closing Costs													(647)
Levered CFs	(220)	71	800	12,731	253	277	301	325	350	375	401	428	10,460
cash on cash return		*32%*	*364%*	*5799%*	*115%*	*126%*	*137%*	*148%*	*159%*	*171%*	*183%*	*195%*	*4765%*
Levered IRR	331%												
NPV	16,969	10%											

Figure 23: Amenity Specific Levered Cash Flows

When deciding whether or not to undergo new construction of a Class A multifamily project, a 10% net present value hurdle rate can be assumed. In the general analysis above, money invested in luxury amenities is clearly generating far greater returns than this. However, during market rent research it was clear that certain submarkets exhibited much higher rent premiums than others. As annual fees ($40,625) alone cannot cover the incremental operating expense incurred from providing a full range amenity package ($127,113), these rent premiums are imperative to any positive return projections. At what rent premium do these returns drop below this 10% threshold? Can urban apartment projects with less than 250 units see these high returns on amenities as well? And what about the forgone rent from using 6,000sf for amenities instead of rental units?

RENT PREMIUMS AND UNIT COUNT

By running a sensitivity analysis on the model created, it is possible to explore the answers to these important questions. This report will discuss the returns on an unleveraged basis, however the leveraged analysis can be viewed in Appendix 8 – Sensitivity Analysis. The following table shows the return sensitivity, of the decision to invest in a state of the art (6,000sf) amenity package, to the monthly rent/sf premium it captures, by building unit count (Note: total building square footage adjusts with building unit count at a rate of 1,000sf/unit. So if the total unit count is adjusted to 150 units, the building is adjusted to 150,000sf).

		Unlevered IRRs									
		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250	4%	10%	24%	34%	42%	49%	56%	62%	68%	74%
	200		2%	19%	28%	36%	43%	49%	55%	60%	66%
	150			11%	21%	28%	34%	40%	45%	50%	55%
	100				10%	18%	23%	28%	33%	37%	41%
	50						2%	10%	13%	17%	20%

Figure 24: Amenity IRR Sensitivity Table (Premium/sf and Unit Count)

For a building with 250 units, a minimum premium monthly rent/sf of $0.05 must be obtained in order to achieve a 10% IRR on the decision to include amenities. For a building with only 50 units to achieve this same 10% return, a $0.30 premium must be captured. Moreover, at any premium less than $0.30, for a 50 unit building, the decision to include a full scale, 6,000sf, amenity package would result in a negative net present value and would therefore not make sense as a standalone economic decision (See Figure 25). The lower the unit count, the higher the amenity rent premium that needs to be captured and the riskier the investment in a full scale amenity package.

		Unlevered NPVs ($000)									
		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250		156	1,699	3,241	4,783	6,325	7,868	9,410	10,952	12,494
	200			969	2,203	3,437	4,671	5,904	7,138	8,372	9,606
	150			240	1,165	2,090	3,016	3,941	4,866	5,792	6,717
	100				127	744	1,361	1,978	2,595	3,212	3,828
	50							15	323	631	940

Figure 25: Amenity Net Present Value Sensitivity Table (Premium/sf and Unit Count)

However, with the larger, 150+ unit, buildings, significant returns can result from even a small premium captured. If the developer of a 200 unit building can capture just $0.15/sf more per month, then the decision to include an amenity package will result in a 28% IRR (See Figure 24). This is a direct result of the significant operating leverage, exhibited below in Figure 26, created by investing in amenities.

		Operating Margins									
		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250	30%	40%	64%	74%	79%	83%	85%	86%	88%	89%
	200	13%	25%	56%	68%	75%	79%	82%	84%	85%	87%
	150		1%	42%	58%	67%	73%	77%	79%	81%	83%
	100			14%	39%	52%	61%	66%	70%	74%	76%
	50					7%	24%	35%	44%	50%	55%

Figure 26: Amenity Operating Margin Sensitivity Table (Premium/sf and Unit Count)

A standard stabilized multifamily project should run at operating margins close to 60%.[16] At a $0.15/sf monthly premium, the 200 unit building amenity package, on a standalone basis, is operating at a 68% margin. As this 68% is greater than the standard 60%, operating leverage for the entire project is created as a result of including a full scale amenity package. Turning back to the smallest, 50 unit, building, it becomes clear that a 6,000sf amenity package would not result in any operating leverage, even at a $0.45/sf monthly premium as only a 55% margin is achieved. Thus, including amenities would decrease the overall operating efficiency of the project. This becomes even more clear when the fact that some of this space, in such a small building, could be used for rentable units instead.

FORGONE RENT

In order to run an analysis that includes a factor for forgone rent, the pro forma operating model, derived in "The Data" section of this report, must be adjusted. In the original model, it was assumed that roughly 6,000sf was being used for amenities. This is a considerable amount of space, which, a developer could potentially use for rentable units – instead of amenities (if allowable unit count has not been maximized per zoning regulations). However, not all 6,000sf of this space can be rented as some will be needed for a small lobby and some may be deemed unrentable if it does not have access to windows. Therefore, it is assumed that only 3,000sf (of the total 6,00sf) has the potential to be used for additional apartment units. Using the same unit average net square footage of 850, a total of three additional units could be added, if the developer decided not to use the space for amenities (3,000sf divided by 850sf = ~3 units). When a monthly rental rate of $3.00/sf is applied, the annual unit rent that a developer is forgoing, is $91,800 (3 units x 850sf x 3.00sf x 12 months = $91,800; See Figure 27).

	# of Units	Average NSF	Rent/NSF	Avg Rent/Mo
Forgone Rent?	3	850	3.00	7,650
Yes				
Annual Forgone Rent				91,800

Figure 27: Forgone Rent Factor

SENSITIVITY ANALYSIS

In the beginning of "The Data" section of this report, it was noted only *additional* costs and revenues associated with an amenity package would be included in the analysis conducted. Forgone rent can be considered an additional cost – as it is something the developer is giving up when deciding to include amenities. A new pro forma, for the original 250 unit building, which adjusts for this factor, can be viewed in Appendix 9 – Pro Forma Including Forgone Rent Factor.

Now that forgone rent has been accounted for, a sensitivity analysis, by premium captured and unit count, can be run on the decision to include amenities. The unlevered IRR and NPV analysis for this new scenario is depicted below in Figures 28 and 29 (Levered IRRs and NPVs can be seen in Appendix 8 – Sensitivity Analysis).

Unlevered IRRs: Including Factor for Forgone Rent

	Premium/sf per month										
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			11%	23%	31%	38%	44%	50%	55%	60%
	200			2%	17%	25%	32%	37%	43%	48%	52%
	150				6%	16%	23%	29%	34%	38%	42%
	100						9%	16%	21%	25%	29%
	50										2%

Figure 28: Amenity IRR Sensitivity Table – Including Forgone Rent Factor

Unlevered NPVs: Including Factor for Forgone Rent ($000)

	Premium/sf per month										
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			302	1,844	3,386	4,928	6,470	8,013	9,555	11,097
	200				806	2,040	3,273	4,507	5,741	6,975	8,209
	150					693	1,619	2,544	3,469	4,395	5,320
	100							581	1,198	1,814	2,431
	50										

Figure 29: Amenity NPV Sensitivity Table – Including Forgone Rent Factor

Recall that when forgone rent was not a factor, the developer of a 50 unit fully amenitized building was able to expect a 10% internal rate of return (and a positive net present value) if a $0.30 rent premium was captured (See Figure 24). However, when there are only 50,000 square feet in the building – giving up 6,000 for amenities has a substantial impact on the net operating income for the project. Even at a $0.45 rent premium, the decision to include amenities will not make sense in a 50 unit building, once forgone rent is considered.

Operating margins for all unit sizes will be affected as well (See Figure 30). However, the larger the building, the less of an impact forgone rent has. For example, consider a 250 unit building, with an amenity package that is collecting a $0.20 rent premium. This amenity package runs at an operating margin of 75% when forgone rent is considered and 79% when it is not – a 4% differential. An amenity package in a 100 unit building, at this same $0.15 rent premium, exhibits operating margins of 18% when forgone rent is considered and 52% when it is not – a, much larger, 34% differential.

Operating Margins: Including Forgone Rent Factor											
		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			48%	67%	75%	80%	83%	85%	87%	88%
	200			28%	57%	69%	75%	79%	82%	84%	85%
	150				35%	55%	65%	72%	76%	79%	81%
	100					18%	41%	53%	61%	67%	71%
	50									11%	27%

Figure 30: Amenity Operating Margin Sensitivity Table – Including Forgone Rent Factor

RULES OF THUMB

The following "Rules of Thumb" for investing in amenities can now be derived:

Rule Number 1: The property market must exhibit an amenity rent premium in order for the investment to make sense. A full scale amenity package cannot operate profitably if only amenity fees are collected.

Rule Number 2: The minimum rent premium that amenities must command to make economic sense will depend on the unit size of the building. For buildings with 250 units, a minimum monthly premium of $0.10/sf must exist. For buildings with 200, 150, and 100 units, this minimum premium is $0.15/sf, $0.20/sf, and $0.25/sf respectively.

Rule Number 3: If forgone rent is a factor, the minimum rent premium that amenities must command will be greater. For buildings with 250, 150, and 100 units, this minimum premium monthly premium will be $$0.15/sf, $0.20/sf, $0.25/sf, and $0.35/sf respectively.

Rule Number 4: Class A multifamily developers in the Washington DC Metro Area, should consider an investment in a full scale amenity package if the project has 66 units or more. At an average monthly local market rent premium of $0.54/sf, this is the minimum building size, forgone rent factor included, in which the decision to invest in amenities will result in operating leverage. Whether or not the investment ultimately makes sense will depend on a more detailed submarket rent premium analysis.

CONCLUSIONS

Amenity packages have without a doubt increased in size and stature over the last ten years. The distorted property cycle, that began in 1994 as a result of excess liquidity, and ended in the summer of 2007 with the bursting of the housing bubble, left Class A multifamily developers with an ultra luxurious standard amenity package that has now come to define the product type. Today, potential tenants expect Fitness Centers to have Yoga Studios, Business Centers to have Conference Rooms, and Lobbies to include 24-hour concierge services.

However, in some markets, tenants are willing to pay a high premium for these amenities. In the Washington DC metro area, the average Class A multifamily tenant is paying $5,500 more a year to live in a building with state of the art amenities than they are to live in one without. When rent premiums, such as this, can be captured as a result of including these options and services, they can provide extremely large operating leverage to overall project returns. While highly dependent on local market appetite and building unit count, generally speaking, the decision to include these now standard amenity packages is not only economically feasible, but a solid investment decision.

There is no arguing that the Housing Bubble created severe negative ramifications for the global economy and real estate industry as a whole. However, it left Class A multifamily development with a “silver lining” of ultra luxurious amenities with very powerful operating leverage potential.

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APPENDIX 1
WASHINGTON DC METRO AREA CLASS A APARTMENT SURVEY

	The Ellington[34]	View 14[35]	Highland Park[36]	Park Place[37]	Jefferson at Cap Yds[38]	Axiom at Cap Yds[39]	909 at Cap Yds[40]	Wisconsin Place[41]	The Palatine[42]	Lyon Place[43]
Property Overviews										
Address	1301 U Street NW	2303 14th Street NW	1400 Irving Street NW	850 Quincy Street NW	70 Eye Street SE	100 Eye Street SE	909 New Jersey Ave SE	4440 Willard Ave	1301 N Troy Street	1200 N Garfield
State	District of Columbia	District of Columbia	District of Columbia	District of Columbia	District of Columbia	District of Columbia	District of Columbia	Maryland	Virginia	Virginia
Neighborhood	U Street Corridor	Columbia Heights	Columbia Heights	Petworth	Baseball District	Baseball District	Baseball District	Friendship Heights	Courthouse	Clarendon
Year Built	2004	2009	2007	2008	2008	2008	2009	2009	2008	2010
Developer/Owner	Donatelli	Level2	Donatelli	Donatelli	JPI	JPI	JPI	Archstone	Monument	BF Saul
Buildings	1 five story building	1 nine story building	1 seven story building	1 seven story building	1 eleven story	1 elevan story	1 thirteen story	1 fifteen story bldg	1 ten story bldg	1 elevan story bldg
Units	190	178	208	131	448	246	237	432	262	244
Retail?	y	y	y	y	n	n	y	y	n	y
Avg Monthly Rent ($/SF)*	3.28	3.51	3.03	3.08	2.59	2.71	2.79	3.46	2.94	3.06
"Luxury" Fees										
Amenity (one time)	300	500	250	250	350	350	350	300	500	600
Pet (one time)	500	500	250	500	350	350	350	250	500	350 cat/ 750 dog
Pet Rent (monthly)	35	50	35	50	40	40	40	50	50	none
Parking (monthly)	225	175	200	175	150	150	150	through colonial	150	95 for 1st, 195 for 2nd
Storage (monthly)	100	75	50	50	75	75	75	150	75	75
Property Amenities										
Club Room	y	y	y	y	y	y	y	y	y	y
Theater/Media Lounge	n	y	n	n	y	n	y	y	n	n
Fitness Center	y	y	y	y	y	y	y	y	y	y
Yoga Studio	y	y	y	y	n	n	y	y	n	n
Pool	n	n	n	n	rooftop	rooftop	outdoor - 2nd floor	rooftop	rooftop	indoor
Business Center	y	y	y	n	y	y	y	y	n	y
Garden/Courtyard	n	y	n	n	y	y	y	y	y	y
Roof Decks	y	y	y	y	y	y	n	y	y	n
Underground Parking	y	y	y	y	y	y	y	y	y	y
Storage	y	y	y	y	y	y	y	y	y	y
Furnished guest suites	n	y	y	n	y	n	y	y	y	y
Property Services										
WiFi in Amenity area	y	y	y	y	y	y	y	y	y	y
24 hour concierge	y	y	y	y	y	y	y	y	y	y
Plant Watering	y	y	y	y	n	n	n	n	n	n
Mail Pick Up	y	y	y	y	n	n	n	n	n	n
Pet Sitting	y	y	y	y	n	n	n	n	n	n
Valet Dry Cleaning	y	y	y	y	y	y	y	y	y	y
24 Hour Maintenance	y	y	y	y	y	y	y	y	y	y
Zipcar Carsharing on-site	n	y	n	y	n	n	n	n	n	n
Unit Specifications										
Unit outdoor spaces	some	most	some	some	some	some	some	some	some	some
Ceiling Height	9+	9+	9+	9+	9+	9+	9+	9+	9+	9+
Countertops	granite	granite	granite	granite	granite	granite or quartz	granite	granite	granite	granite
Cabinets	maple	maple	maple	maple	maple	maple	maple	maple	maple	maple
Appliances	black - GE standard	SS - Fridgedaire	SS - GE Profile	SS - GE Profile	black - GE	black or SS - GE	SS - GE	Stainless Steel	Stainless Steel	SS - GE Energy Star
Stovetop	gas	electric	gas	gas	electric	electric	electric	electric	gas	gas
Tile	ceramic	porcelain	ceramic	ceramic	ceramic	ceramic	ceramic	ceramic	ceramic	porcelain
Flooring (living area)	stained concrete	wood laminate	stained concrete	stained concrete	"hardwood style"	"hardwood style"	"hardwood style"	hardwood	wood laminate	hardwood
In-unit Washer/Dryer	y	y	y	y	y	y	y	y	y	y
Walk in Closest	y	y	y	y	y	y	y	y	y	y
Notes			*Average Asking Rent Calculated from Rent Survey*							

APPENDIX 1
WASHINGTON DC METRO AREA CLASS A APARTMENT SURVEY

Class A Apartment Rent Survey					
Community Name/Neighborhood	Unit Type (Bd/Bth/Dn)	SF	Price/mo	$/SF/mo	AVG $/SF/mo
The Ellington	1/1	737	2,440	3.31	3.28
U Street Corridor	1/1	917	3,125	3.41	
	1/1.5	916	2,920	3.19	
	2/2	1,080	3,410	3.16	
	2/2	1,062	3,395	3.20	
	2/2D	1,095	3,925	3.58	
	2/2.5	1,162	3,625	3.12	
View 14	0/1	525	2,212	4.21	3.51
U Street Corridor	1/1	786	2,950	3.75	
	1/1	836	2,734	3.27	
	1/1D	944	3,223	3.41	
	1/2D	864	3,035	3.51	
	1/2	957	3,395	3.55	
	2/2	1,352	4,392	3.25	
	2/2	1,692	5,280	3.12	
Highland Park	1/1	539	1,850	3.43	3.03
Columbia Heights	1/1	645	2,100	3.26	
	1/1	614	2,000	3.26	
	1/1	640	2,100	3.28	
	1/1	667	2,260	3.39	
	1/1	657	2,205	3.36	
	1/1	752	2,220	2.95	
	1/1	663	2,250	3.39	
	1/1D	1,207	3,745	3.10	
	1/1.5	926	2,500	2.70	
	1/2D	1,190	3,620	3.04	
	1/2	1,007	2,300	2.28	
	1/2D	1,179	3,670	3.11	
	1/2D	1,195	2,599	2.17	
	2/2	1,160	3,480	3.00	
	2/2	857	2,630	3.07	
	2/2	977	3,055	3.13	
	2/2	1,006	2,900	2.88	
	2/2	1,023	3,110	3.04	
	2/2	950	2,950	3.11	
	2/2D	1,108	3,190	2.88	
	2/2	1,130	3,300	2.92	
	2/2D	1,361	3,870	2.84	
Park Place	1/1	673	1,998	2.97	3.08
Petworth	1/1	686	2,072	3.02	
	1/1	770	1,913	2.48	
	1/1D	800	3,100	3.88	
	1/1	665	2,370	3.56	
	1/1	590	2,175	3.69	
	1/1	746	2,650	3.55	
	1/1	747	2,730	3.65	
	1/2D	932	2,558	2.74	
	2/1	901	2,790	3.10	
	2/2	1,028	2,910	2.83	
	2/2	926	2,825	3.05	
	2/2	1,098	2,732	2.49	
	2/2	1,130	2,842	2.52	
	2/2	992	2,910	2.93	
	2/2	1,180	3,425	2.90	
	3/2	1,198	3,530	2.95	

Source: Asking Rents. Retrieved April 20, 2011 from http://www.rent.com

APPENDIX 1
WASHINGTON DC METRO AREA CLASS A APARTMENT SURVEY

Class A Apartment Rent Survey (Continued)					
Community Name/Neighborhood	Unit Type (Bd/Bth/Dn)	SF	Price/mo	$/SF/mo	AVG $/SF/mo
Jefferson at Capitol Yards	0/1	608	1,885	3.10	2.59
Baseball District	1/1	841	2,340	2.78	
	1/2	1,006	2,635	2.62	
	2/2	1,212	2,100	1.73	
	2/2	1,374	3,700	2.69	
Axiom at Capitol Yards	0/1	736	1,775	2.41	2.71
Baseball District	1/1	838	2,410	2.88	
	1/2D	996	2,840	2.85	
	2/2	1,200	3,265	2.72	
	2/2D	1,365	3,670	2.69	
909 at Capitol Yards	0/1	534	1,870	3.50	2.79
Baseball District	1/1	905	2,085	2.30	
	2/2	1,328	3,410	2.57	
Wisconsin Place	0/1	469	1,978	4.22	3.46
Friendship Heights	1/1	767	2,490	3.25	
	1/1	750	2,425	3.23	
	1/1	717	2,488	3.47	
	1/1	717	2,472	3.45	
	1/1	767	2,486	3.24	
	1/1	717	2,505	3.49	
	1/1	792	2,596	3.28	
	1/1D	825	2,621	3.18	
	1/1	875	2,702	3.09	
	1/1	767	2,721	3.55	
	1/1D	825	3,067	3.72	
	1/1D	877	3,231	3.68	
	1/1D	961	3,016	3.14	
	2/2	1,060	3,492	3.29	
	2/2	1,019	3,634	3.57	
	2/2	1,013	3,654	3.61	
	2/2	1,122	3,943	3.51	
	2/2	1,125	3,779	3.36	
	2/2	1,072	3,848	3.59	
	2/2	1,125	3,851	3.42	
	2/2	1,132	4,004	3.54	
	2/2	1,075	3,911	3.64	
	2/2	1,210	4,094	3.38	
	2/2D	1,255	4,394	3.50	
	2/2D	1,311	4,567	3.48	
The Palatine	0/1	594	1,880	3.16	2.94
Courthouse	1/1	962	2,904	3.02	
	1/1D	1,134	3,307	2.92	
	2/2	1,341	3,840	2.86	
	2/2D	1,471	4,035	2.74	
Lyon Place	0/1	485	1,635	3.37	3.06
Clarendon	2/2	1,146	3,300	2.88	
	2/2	1,114	3,815	3.42	
	2/2	999	3,375	3.38	
	2.5/2	1,247	3,615	2.90	
	2/2	1,247	3,270	2.62	
	2/2	1,113	3,375	3.03	
	2/2	1,146	3,300	2.88	

Source: Asking Rents. Retrieved April 20, 2011 from http://www.rent.com

APPENDIX 2
BACK OF THE ENVELOPE 1

		Annual	% of GPI	Per Unit	Per SF	Fees
Income				250	250,000	
	Gross Potential Rent	6,250,000			25.00	
	Loss to Lease	(62,500)	-1.00%			
	Vacancy	(312,500)	-5.00%			
	Concessions	(312,500)	-5.00%			
Net Rental Income		5,562,500				
	Parking Income	450,000				150
	Other Income	40,625				250
Effective Gross Income		6,053,125				
Variable Expenses						
	Leasing & Advertising	125,000	2%			
	Administrative	125,000			0.50	
	Utilities	187,500			0.75	
	Turnover Expense	62,500			0.25	
	Management	181,594	3.00%			
	Repairs & Maintenance	187,500			0.75	
	Payroll	375,000			1.50	
Total Variable Expenses		1,244,094				
Gross Operating Income		4,809,031				
Fixed Expenses						
	Real Estate Taxes	500,000				
	Insurance	75,000				
Total Fixed Expenses		575,000				
Net Operating Income		4,234,031				

APPENDIX 2
BACK OF THE ENVELOPE 2

Units	250
SF	250,000

		Annual	% of GPI	Per SF Old	Per SF New	
Income						
	Gross Potential Rent	6,081,250		25.00	24.33	*Reduced by Total OpEx Savings
	Loss to Lease	(60,813)	-1.00%			
	Vacancy	(304,063)	-5.00%			
	Concessions	(304,063)	-5.00%			
Net Rental Income		5,412,313				
	Parking Income	450,000				
	Other Income	40,625				
Effective Gross Income		5,902,938				
Variable Expenses						
	Leasing & Advertising	121,625	2%			
	Administrative	125,000		0.50		
	Utilities	187,500		0.75		
	Turnover Expense	62,500		0.25		
	Management Fee	177,088	3%			
				Old	New	Decrease of:
	Repairs & Maint	131,250		0.75	0.53	30%
	Payroll	262,500		1.50	1.05	30%
					0.68	Total Savings
Total Variable Expenses		1,067,463				
Gross Operating Income		4,835,474				
Fixed Expenses						
	Real Estate Taxes	500,000				
	Insurance	75,000				
Total Fixed Expenses		575,000				
Net Operating Income		4,260,474	*Must stay constant for developer to remain competitive			

Tenant Impact		
avg sf		850
$ Savings /sf	$	0.68
$ Savings /mo	$	48
$ Savings /year	$	574

APPENDIX 3
ASSUMPTIONS

OPERATIONAL ASSUMPTIONS

General

Building Gross SF	250,000
Net Rentable Factor	85%
Net SF	212,500
Total Units	250
Average NSF	850
Turnover/Yr	65%

Revenue

	# of Units	Average NSF	Rent/NSF	Avg Rent/Mo
Rent Premium	250	850	0.54	458
Annual Rent Income				1,374,557

Rent Premium Summary	
Submarket	Premium
Columbia Heights	0.25
Penn Quarter	0.49
U Street Corridor	0.89
Chevy Chase	0.30
Clarendon	0.76
Avg Rent Premium	0.54

	# of Units	Turnover/Yr	Fee	
Amenity Fee	250	65%	250	
Annual Addl Income				40,625
Total Annual Income				1,415,182

Note: Avg fee is $500, but as market apetite varies year to year, reduced by 50% to $250

	# of Units	Average NSF	Rent/NSF	Avg Rent/Mo
Forgone Rent?	-	850	3.00	-
No				
Annual Forgone Rent				-

Note: If 6,000sf of amenities total, assume 50% is space needed for lobby or unrentable. Leaves 3,000sf. Divided by 850sf/unit = 3 units

Vacancy	5%
Concessions	5%

Escalations (Post Stabilization)

Revenues	2%
OpEx	2%

Operating Expenses

Maintenance/Cleaning				-
	Time/Type	Total Employed	Ann Salary	
Concierge Overhead	Day/Service	2	35,000	70,000
	Night/Security	1	20,000	20,000
Annual Overhead				90,000
Management Fee	3%			

Note: maintenance hired based on unit count, therefore negligible differential

FINANCIAL ASSUMPTIONS

Project Timeline

Construction (mos)	18
Leaseup (units/mo)	15
Months 'til Stabilization	16

Construction Loan

Total Project Cost	731,750
L-T-C	70%
Total Loan	512,225
Total Equity Required	219,525
Interest	2.75%
Points	0.05%

Note: floating rate LIBOR + 250; float monthly

Permanent Loan

Stabilized Value	17,701,739
L-T-V	75%
Max LTV	13,276,304
DSC	1.25
Max DSC	13,144,466
Total Loan	13,144,466
Rate	5.75%
Points	1.00%
Amort	30
Debt Service/Mo	(76,708)
Debt Service/Yr	(920,490)

Stabilization Cap Rate	6.5%
Reversion Cap Rate	6.5%
Closing Costs	3%

APPENDIX 4
PROJECT COST BUDGET

PROJECT COST BUDGET		Budget	SF	Per/SF	Per/Unit
HARD COSTS					
Cost to Finish Out Space					
(paint, flooring, finishes etc)					
Fitness Center		37,500	1,500	25.00	150
Business Center		5,000	100	50.00	20
Conference Room		10,000	200	50.00	40
Club Room		150,000	2,000	75.00	600
Lobby/Concierge		350,000	2,000	175.00	1,400
Forgone Rent?	No	-	-	75.00	
SubTotal		552,500	5,800	95.26	2,210
(Budget Adjustment)*		(203,000)	5,800	(35.00)	812
Total		349,500	5,800	60.26	1,398
Furniture, Fixtures, Equipment					
Fitness Center		40,000			
Business Center		15,000			
Conference Room		25,000			
Club Room		80,000			
Lobby/Concierge		50,000			
Order and Installation Fees		30,000			
Misc Common Area		20,000			
Audio/Visual Package		50,000			
(Budget Adjustment)*		(20,000)			
Total		290,000			
TOTAL HARD COSTS		639,500			
SOFT COSTS					
Marketing					
Class A Interior Design Package		70,000			
(Budget Adjustment)*		(30,000)			
Total		40,000			
			Avg % Outst Loan Bal		plug to match
Construction Interest @	2.75%	30,000	55%		30,436
Finance Costs @	50bps	250			256
Developer Fee @	3%	22,000			21,953
TOTAL SOFT COSTS		92,250			
TOTAL PROJECT COSTS		**731,750**			

*Budget adjustments made for costs that would be incurred regardless of amenity package

APPENDIX 5
COMPARABLES

Subject #1			
Name	View 14	Year Built	2009
Address	2303 14th Street NW	Floors	9
City	Washington	Number of Units	178
State	DC	Class	A
Zip	20009	Unit Type	2 Bed/2 Bath
Submarket	N. U St/Columbia Heights	Asking Rent/Mo	4,392
		Unit Size (SF)	1,352
		Asking Rent/SF	3.25

Amenities: Club Room, Media Lounge, Fitness Center, Yoga Studio, Biz Center, Roofdeck, 24 Hour Concierge

(Source: View 14 Website, property tour, Cushman Wakefield OM, Rent.com)

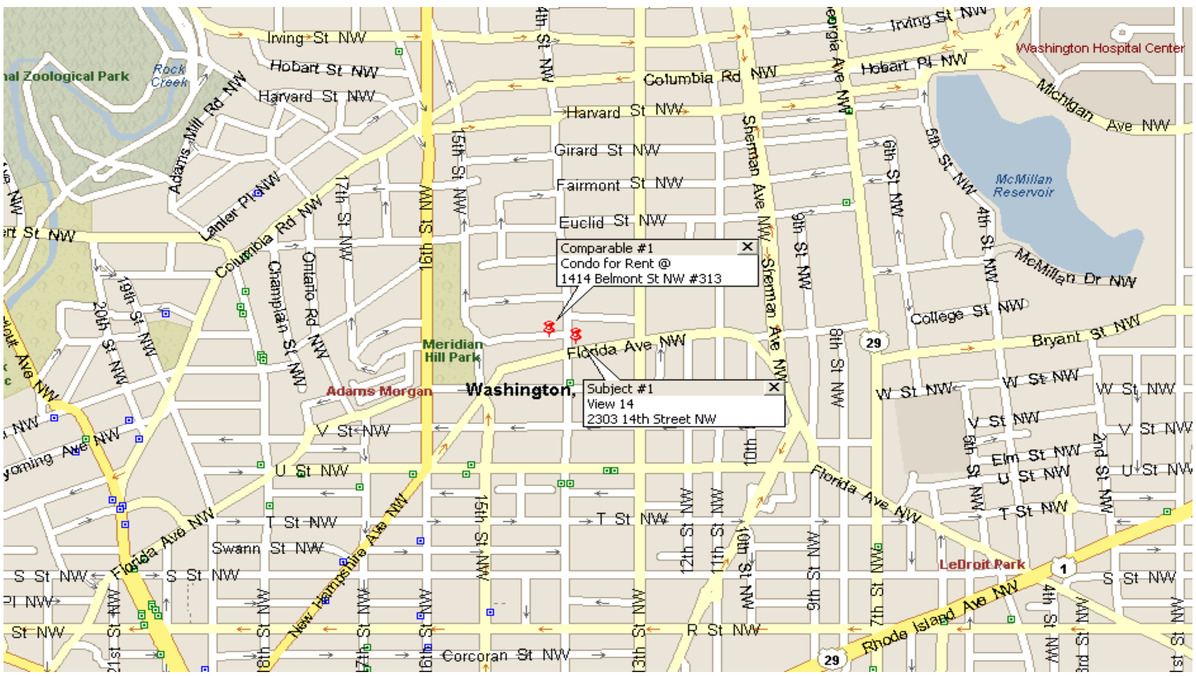
Comparable #1			
Name	N/A	Year Built	2009
Address	1414 Belmont St NW #313	Floors	5
City	Washington	Number of Units	unknown
State	DC	Class	Lux Condo
Zip	20009	Unit Type	2 Bed/ 2 Bath
Submarket	N. U St/Columbia Heights	Asking Rent/Mo	2,600
Distance from Subject	0.1 miles (directly across st)	Unit Size (SF)	809
		Asking Rent/SF	3.21

Amenities: None

(Source: Metropolitan Regional Information Systems, Inc.)

Summary #1		
Asking Comp Rent/SF	3.21	
Adjustments		
Parking	-0.22	Note: $175/mo
Total Adjustments	-0.22	
Adjusted Rent/SF	2.99	
View 14	3.25	
Amenity Premium	0.25	

Map of Subject and Comparable #1



APPENDIX 5
COMPARABLES

Listing Details for Subject and Comparable #1

	View 14[35]
Property Overviews	
Address	2303 14th Street
State	DC
Neighborhood	Columbia Heights
Year Built	2009
Developer/Owner	Level2
Buildings	1, 9 story building
Units	178
Retail?	y
Avg Monthly Rent ($/SF)*	3.51
"Luxury" Fees	
Amenity (one time)	500
Pet (one time)	500
Pet Rent (monthly)	50
Parking (monthly)	175
Storage (monthly)	75
Property Amenities	
Club Room	y
Theater/Media Lounge	y
Fitness Center	y
Yoga Studio	y
Pool	n
Business Center	y
Garden/Courtyard	y
Roof Decks	y
Underground Parking	y
Storage	y
Furnished guest suites	y
Property Services	
WiFi in Amenity area	y
24 hour concierge	y
Plant Watering	y
Mail Pick Up	y
Pet Sitting	y
Valet Dry Cleaning	y
24 Hour Maintenance	y
Zipcar Carsharing on-site	y
Unit Specifications	
Unit outdoor spaces	most
Ceiling Height	9+
Countertops	granite
Cabinets	maple
Appliances	SS - Fridgedaire
Stovetop	electric
Tile	porcelain
Flooring (living area)	wood laminate
In-unit Washer/Dryer	y
Walk in Closest	y

View 14 [44]

View 14 [44]

View 14 [44]

1414 BELMONT ST NW #313, WASHINGTON, DC 20009
ML#: DC7545757 LP: $2,450
Status: RENTED DOMM/DOMP: 41/41
Adv Sub: COLUMBIA HEIGHTS
Ownership: Condo Total Taxes:
Contract Date: 16-Apr-2011 Close Date: 17-Apr-2011
Close Price: $2,400 Seller Subsidy:
Date Avail: 07-Mar-2011 Ground Rent:
Type: Hi-Rise 9+ Floors Area:
Style: Contemporary ADC Map Coord: 000
BR/FB/HB: 2/2/0 Yr Blt: 2009
Lot AC/SF: / HOA/CC Fee: /0.0
SQFT-Tot Fin: 809 Tax Living Area: 809
Lvls/Fpl: 1/0 Vacation Y/N: No
Construction: Brick
Basement: No,
Parking: Garage
Gar/Cpt/Assgn: 1//
Heat/Cool: Electric/Forced Air/Electric/Central A/C
Water/Swr: Public/Public Sewer
List Date: 06-Mar-2011 Update Date: 16-Apr-2011

5

Image **1** of **5**

Company: Mdv Realty

Remarks: Newer condo building. Close to many amenities. Stainless appliances. Granite counter top

Directions: Up 14th street to Belmont

Prepared by SARAH BRODSKY of LONG AND FOSTER on 4/19/2011 at 3:30PM

APPENDIX 5
COMPARABLES

Subject #2				Comparable #2			
Name	Mass Court	Year Built	2003	Name	N/A	Year Built	2005
Address	300 Massachusetts Ave	Floors	11	Address	809 6th Street NW	Floors	6
City	Washington	Number of Units	unknown	City	Washington	Number of Units	30
State	DC	Class	A	State	DC	Class	Condo
Zip	20001	Unit Type	2 Bed/ 2 Bath	Zip	20001	Unit Type	2 Bed/2 Bath
Submarket	Penn Quarter	Asking Rent/Mo	3,191	Submarket	Penn Quarter	Asking Rent/Mo	2,995
		Unit Size (SF)	1,049	Distance from Subject	0.5 miles	Unit Size (SF)	1,100
		Asking Rent/SF	3.04			Asking Rent/SF	2.72

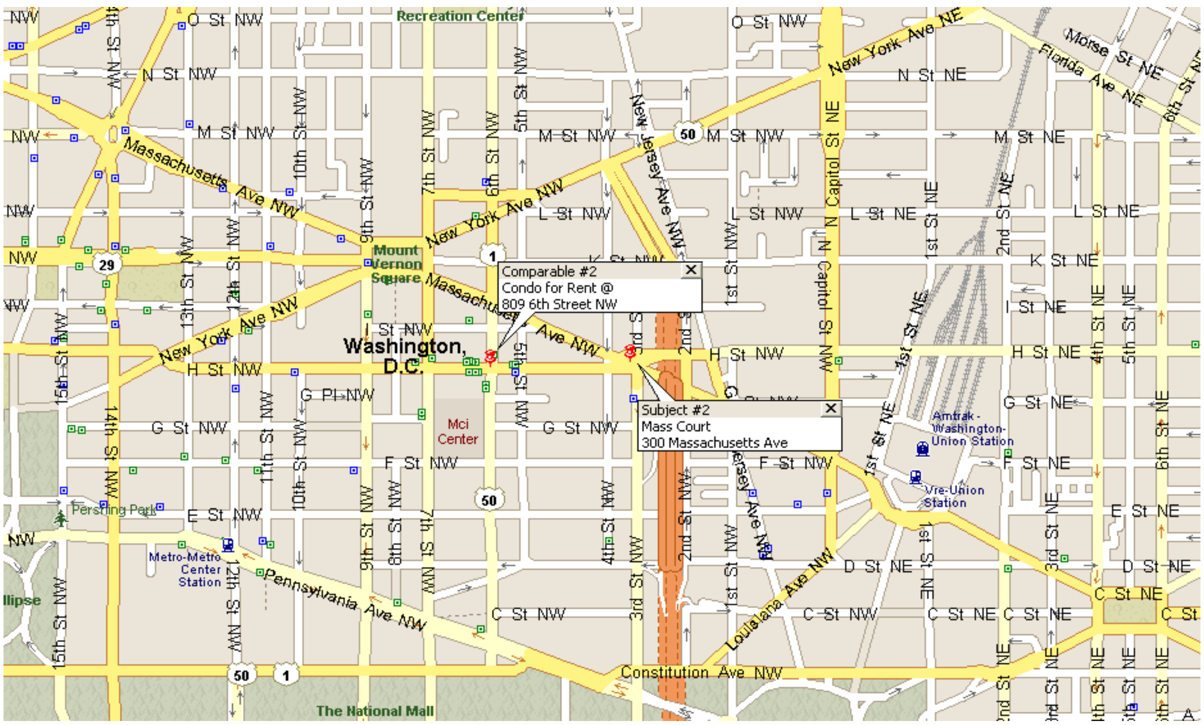
Amenities: Club Room, Media Lounge, Fitness Center, Biz Center, Rooftop Pool
24 Hour Concierge

(Source: Mass Court Website, Rent.com)

Amenities: small roof deck
(Source: Craigslist)

Summary #2		
Asking Comp Rent/SF	2.72	
Adjustments		
Parking Included	-0.16	Note: $175/mo
Roof Terrace	-0.01	Note: $132/year
Total Adjustments	-0.17	
Adjusted Rent/SF	2.55	
Mass Court	3.04	
Amenity Premium	0.49	

Map of Subject and Comparable #2



APPENDIX 5
COMPARABLES

Listing Details for Subject and Comparable #2

	Mass Court[49]
Property Overviews	
Address	300 Mass Ave
State	DC
Neighborhood	Penn Quarter
Year Built	2003
Developer/Owner	unknown
Buildings	1, 11 stoty bldg
Units	unknown
Retail?	y
Avg Monthly Rent ($/SF)*	unknown
"Luxury" Fees	
Amenity (one time)	400
Pet (one time)	400
Pet Rent (monthly)	35
Parking (monthly)	175
Storage (monthly)	50
Property Amenities	
Club Room	y
Theater/Media Lounge	n
Fitness Center	y
Yoga Studio	y
Pool	rooftop
Business Center	y
Garden/Courtyard	y
Roof Decks	y
Underground Parking	y
Storage	y
Furnished guest suites	n
Property Services	
WiFi in Amenity area	y
24 hour concierge	y
Plant Watering	n
Mail Pick Up	n
Pet Sitting	n
Valet Dry Cleaning	y
24 Hour Maintenance	y
Zipcar Carsharing on-site	n
Unit Specifications	
Unit outdoor spaces	n
Ceiling Height	9+
Countertops	granite
Cabinets	maple
Appliances	black Whirlpool
Stovetop	unknown
Tile	ceramic
Flooring (living area)	carpet
In-unit Washer/Dryer	y
Walk in Closest	y

Mass Court [45]

Mass Court [45]

Mass Court [45]

Todd Bissey | John C. Formant Real Estate | (202) 841-7653

809 6th Street, NW #42, Washington, DC

Refreshingly bright & extremly convenient!

2BR/2BA Condo — $2,995/month

Bedrooms	2
Bathrooms	2 full, 0 partial
Sq Footage	1,100
Parking	1 dedicated
Pet Policy	No pets
Deposit	$2,995

see additional photos below

DESCRIPTION

Large & bright (Southern & Western exposures) 2BR/2BA in the Penn Quarter / Chinatown neighborhood, comes with one GARAGE PARKING space. Open gourmet kitchen w/ honey brown cabinets, stainless steel appliances & a large granite breakfast bar. Both bedrooms are large enough for queen or king beds, and both have good closet space. The master bedroom walk-in closet is heaven. Located at 6th & H Streets, NW, & just steps to Gallery Place/Chinatown (Red/Yellow/Green Line) METRO! There is a roof deck w/ gas grill & amazing views. The 6th Street Flats Condominium is an intimate 30-unit boutique condominium built in 2005. Owner/agent. Tenants pay cooking gas & electric. Water & the heating of the hot water is included. No move-in fee. Available MAY 1, 2011.

RENTAL FEATURES

- Air conditioning	- Central heat	- Walk-in closet
- Hardwood floor	- Tile floor	- Living room
- Dishwasher	- Refrigerator	- Stove/Oven
- Microwave	- Granite countertop	- Stainless steel appliances

Craigslist Posting ID: 2299942093; Posted March 26, 2011 at 8:31AM PDT

APPENDIX 5
COMPARABLES

Subject #3			
Name	The Ellington	Year Built	2004
Address	1301 U Street NW	Floors	5
City	Washington	Number of Units	190
State	DC	Class	A
Zip	20009	Unit Type	2 Bed/ 2 Bath/ Den
Submarket	U Street Corridor	Asking Rent/Mo	3,925
		Unit Size (SF)	1,095
		Asking Rent/SF	3.58

Amenities: Club Room, Fitness Center, Yoga Studio, Biz Center, Roofdeck,
24 Hour Concierge

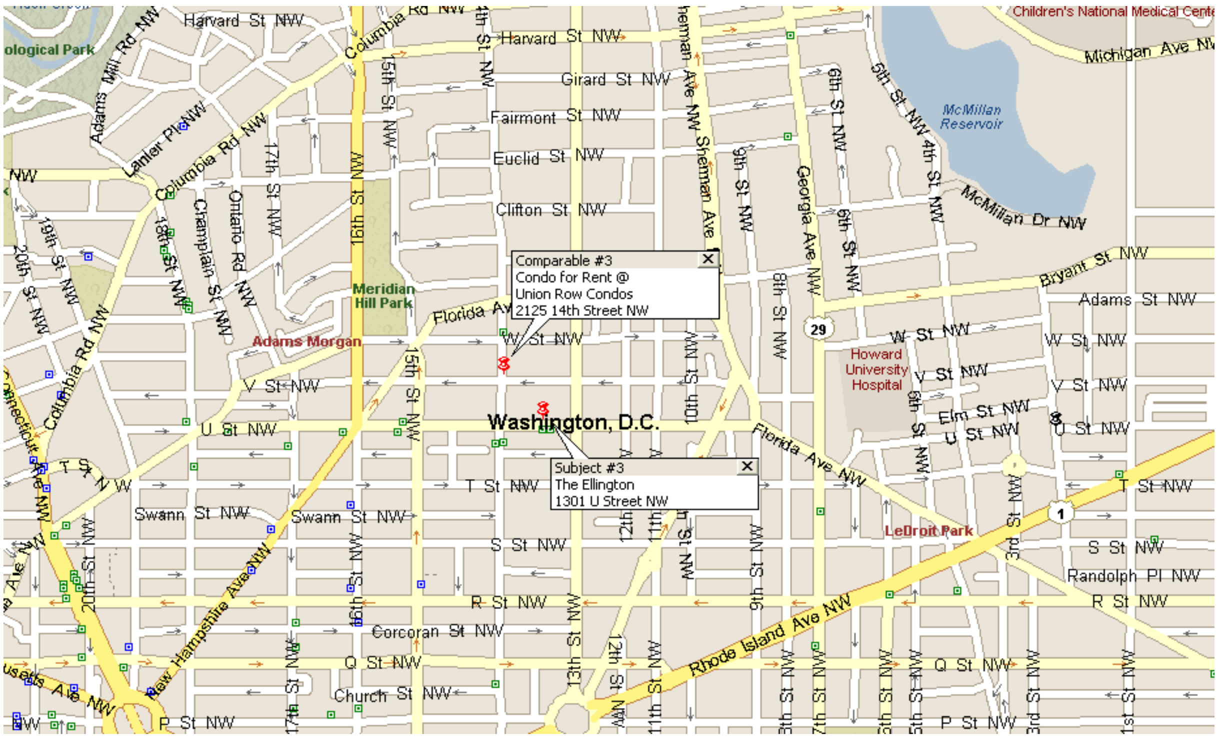
(Source: Ellington website, property tour, Rent.com)

Comparable #3			
Name	Union Row Condos	Year Built	2006
Address	2125 14th Street NW	Floors	9
City	Washington	Number of Units	200
State	DC	Class	Lux Condo
Zip	20009	Unit Type	2 Bed/ 2 Bath/ Den
Submarket	U Street Corridor	Asking Rent/Mo	3,499
Distance from Subject	0.2 miles	Unit Size (SF)	1,280
		Asking Rent/SF	2.73

Amenities: 24 hour concierge, 8th floor shared terrace
(Source: Craigslist, Union Row Condos Website)

Summary #3		
Asking Comp Rent/SF	2.73	
Adjustments		
24 Hour concierge	-0.03	Note: ~$500/year
Roof Terrace	-0.01	Note: ~$150/year
Total Adjustments	-0.04	
Adjusted Rent/SF	2.69	
Ellington	3.58	
Amenity Premium	0.89	

Map of Subject and Comparable #3



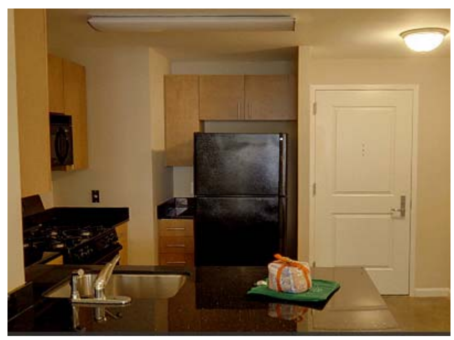
APPENDIX 5
COMPARABLES

Listing Details for Subject and Comparable #3

	The Ellington[34]
Property Overviews	
Address	1301 U Street
State	DC
Neighborhood	U Street Corridor
Year Built	2004
Developer/Owner	Donatelli
Buildings	1, 5 story building
Units	190
Retail?	y
Avg Monthly Rent ($/SF)*	3.28
"Luxury" Fees	
Amenity (one time)	300
Pet (one time)	500
Pet Rent (monthly)	35
Parking (monthly)	225
Storage (monthly)	100
Property Amenities	
Club Room	y
Theater/Media Lounge	n
Fitness Center	y
Yoga Studio	y
Pool	n
Business Center	y
Garden/Courtyard	n
Roof Decks	y
Underground Parking	y
Storage	y
Furnished guest suites	n
Property Services	
WiFi in Amenity area	y
24 hour concierge	y
Plant Watering	y
Mail Pick Up	y
Pet Sitting	y
Valet Dry Cleaning	y
24 Hour Maintenance	y
Zipcar Carsharing on-site	n
Unit Specifications	
Unit outdoor spaces	some
Ceiling Height	9+
Countertops	granite
Cabinets	maple
Appliances	black - GE strd
Stovetop	gas
Tile	ceramic
Flooring (living area)	stained concrete
In-unit Washer/Dryer	y
Walk in Closest	y


The Ellington [46]


The Ellington [46]


The Ellington [46]

JUST 2 BLOCKS FROM 13TH AND U ST GREEN LINE METRO

AVAILABLE this June 1, 2011 for $3,499.00 + utils or furnished for $3,700.00

Luxury Union Row Condominium by PN Hoffman

2125 14th St. NW apt 317 Washington, DC 20009

2 BEDROOM DEN BATHROOM WITH BALCONY

1280 sq ft hardwood maple hardwood floor thru-out and berber carpeted bedroom, conder end L-shaped single level loft style apartment flooded surrounded by windows, very open living/dining/ktichen floor plan, perfect for entertaining, large kitchen with granite counter tops, a huge granite center island and stainless steel GE appliances including fridge, range, oven,microwave and dishwasher and in unit fmaily size washer/dryer, cetrnal heating and air conditioning with 2 separate thermostat to control the main living room and the 2 bedrooms, a master bedroom with en-suite bathroom with standing shower and walk in closet. The second bedroom comes with full bathroom and bath tub, additional Den or foyer space can be a Home office or guest area.

24hr receptionist/free Gourmet Coffee, 3 elevators, lobby social room and 8th floor terrace with balcony and fire-place for resident use and their guest, water and garbage are included in the rent except electricity and cable, ground floor commercial outlets like yes organic supermarket, CVS store, Eatonville restaurant, walk to Dupont and Adams morgan, clubs, theatre and restaurants.

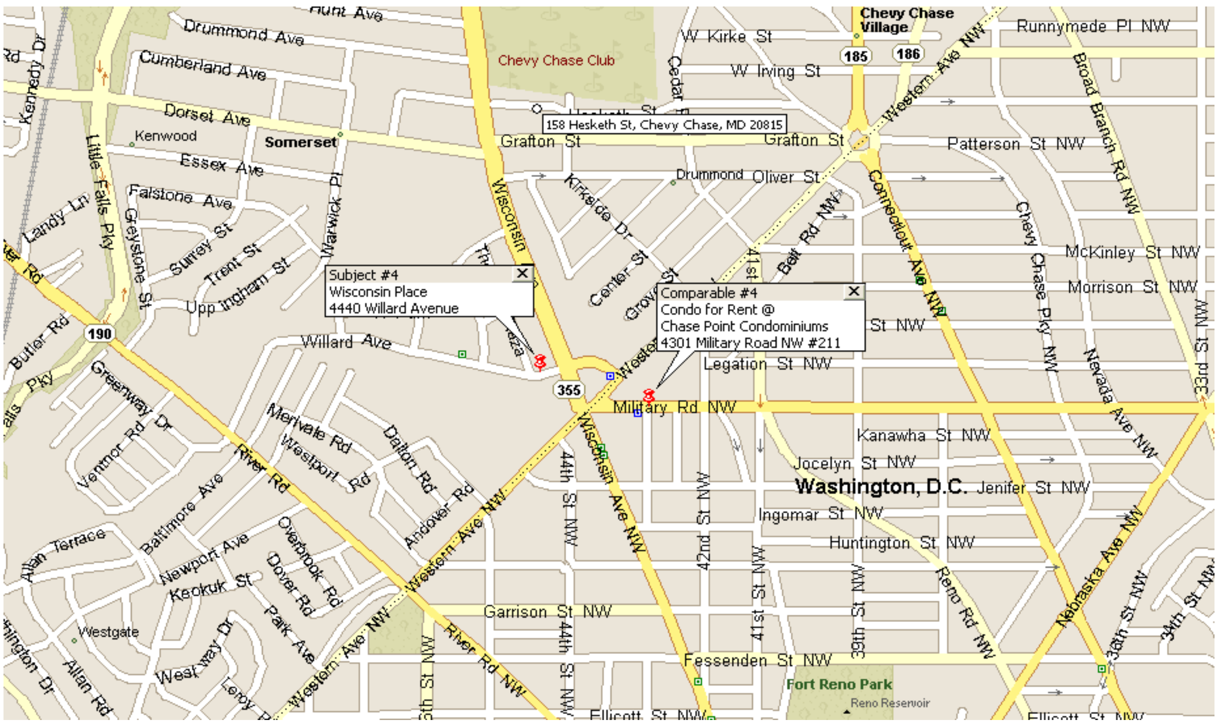
small pets ok up to a mazimum of 2 pets with non-refundable pets deposit of $300 per pet
one year lease required with one month security deposit and first month rent

Craigslist Posting ID: 2300536004; Posted April 2, 2011 at 1:13AM PDT

APPENDIX 5
COMPARABLES

Subject #4				**Comparable #4**			
Name	Wisconsin Place	Year Built	2010	Name	Chase Point Condominiums	Year Built	2007
Address	4440 Willard Ave	Floors	15	Address	4301 Military Road NW #211	Floors	5
City	Chevy Chase	Number of Units	432	City	Washington	Number of Units	107
State	Maryland	Class	A	State	DC	Class	lux condo
Zip		Unit Type	1 Bed/ 1 Bath/ Den	Zip	20015	Unit Type	1 bed/ 1 bath/ Den
Submarket	Chevy Chase/Friendship	Asking Rent/Mo	3,231	Submarket	Chevy Chase/Friendship	Asking Rent/Mo	3,200
		Unit Size (SF)	877	Distance from Subject	0.3	Unit Size (SF)	898
		Asking Rent/SF	3.68			Asking Rent/SF	3.56
Amenities: Club Room, Media Lounge, Fitness Center, Yoga Studio, Biz Center, Rooftop Pool, 24 Hour Concierge				Amenities: small fitness center and front desk			
				(Source: Metropolitan Regional Systems, Inc.)			
				Summary #4			
(Source: Wisconsin Place website, Rent.com)				Asking Comp Rent/SF	3.56		
				Adjustments			
				High End Finishes	-3%		
				24 Hour Concierge	-0.03	Note: ~$350/year	
				Small Fitness Center	-0.04	Note: ~$400/year	
				Total Adjustments	-0.18		
				Adjusted Rent/SF	3.39		
				Wisconsin Place	3.68		
				Amenity Premium	0.30		

Maps of Subject and Comparable #4



APPENDIX 5
COMPARABLES

Listing Details for Subject and Comparable #4

	Wisconsin Place[41]
Property Overviews	
Address	4440 Willard Ave
State	Maryland
Neighborhood	Friendship Heights
Year Built	2009
Developer/Owner	Archstone
Buildings	1 fifteen story bldg
Units	432
Retail?	y
Avg Monthly Rent ($/SF)*	3.46
"Luxury" Fees	
Amenity (one time)	300
Pet (one time)	250
Pet Rent (monthly)	50
Parking (monthly)	through colonial
Storage (monthly)	150
Property Amenities	
Club Room	y
Theater/Media Lounge	y
Fitness Center	y
Yoga Studio	y
Pool	rooftop
Business Center	y
Garden/Courtyard	y
Roof Decks	y
Underground Parking	y
Storage	y
Furnished guest suites	y
Property Services	
WiFi in Amenity area	y
24 hour concierge	y
Plant Watering	n
Mail Pick Up	n
Pet Sitting	n
Valet Dry Cleaning	y
24 Hour Maintenance	y
Zipcar Carsharing on-site	n
Unit Specifications	
Unit outdoor spaces	some
Ceiling Height	9+
Countertops	granite
Cabinets	maple
Appliances	Stainless Steel
Stovetop	electric
Tile	ceramic
Flooring (living area)	hardwood
In-unit Washer/Dryer	y
Walk in Closest	y

Wisconsin Place[47]

Wisconsin Place[47]

Wisconsin Place[47]

Image **1** of **1**

4301 MILITARY RD NW #211, WASHINGTON, DC 20015

ML#: DC7549307	LP: $3,200
Status: ACTIVE	DOMM/DOMP: 39/39
Adv Sub: CHEVY CHASE	
Ownership: Condo	Total Taxes:
Date Avail: 10-Mar-2011	Ground Rent:
Type: Mid-Rise 5-8 Floors	Area:
Style: Colonial	ADC Map Coord: XXXXX
BR/FB/HB: 1/2/0	Yr Blt: 2007
Lot AC/SF: /	HOA/CC Fee: /675.0
SQFT-Tot Fin: 898	Tax Living Area: 898
Lvls/Fpl: 1/0	Vacation Y/N: No
Construction: Brick	
Basement: No,	
Parking: Garage	
# Gar/Cpt/Assgn: 1//	
Heat/Cool: Natural Gas/Forced Air/Electric/Central A/C	
Water/Swr: Public/Public Sewer	
List Date: 10-Mar-2011	Update Date: 10-Mar-2011

Company: Re/Max Realty Services

Remarks: Lovely 1BR + DEN in nearly new building with gourmet kitchen, Viking appls, kit island w/breakfast bar, close to everything. METRO, grocery, shops and restaurants a short walk.

Directions: North on Wisconsin, right on Western, right on Military. Park in rear (shares parking with day care)

Prepared by SARAH BRODSKY of LONG AND FOSTER on 4/19/2011 at 3:30PM

APPENDIX 5
COMPARABLES

Subject #5			
Name	Lyon Place	Year Built	2010
Address	1200 North Garfield Street	Floors	
City	Arlington	Number of Units	
State	Virginia	Class	A
Zip	22201	Unit Type	2 bed/2bath
Submarket	Clarendon	Asking Rent/Mo	3,375
		Unit Size (SF)	999
		Asking Rent/SF	3.38

Amenities: 50ft indoor lap pool, health club, party room, business center, sundeck, 24 Hour concierge

(Source: Lyon Place Website)

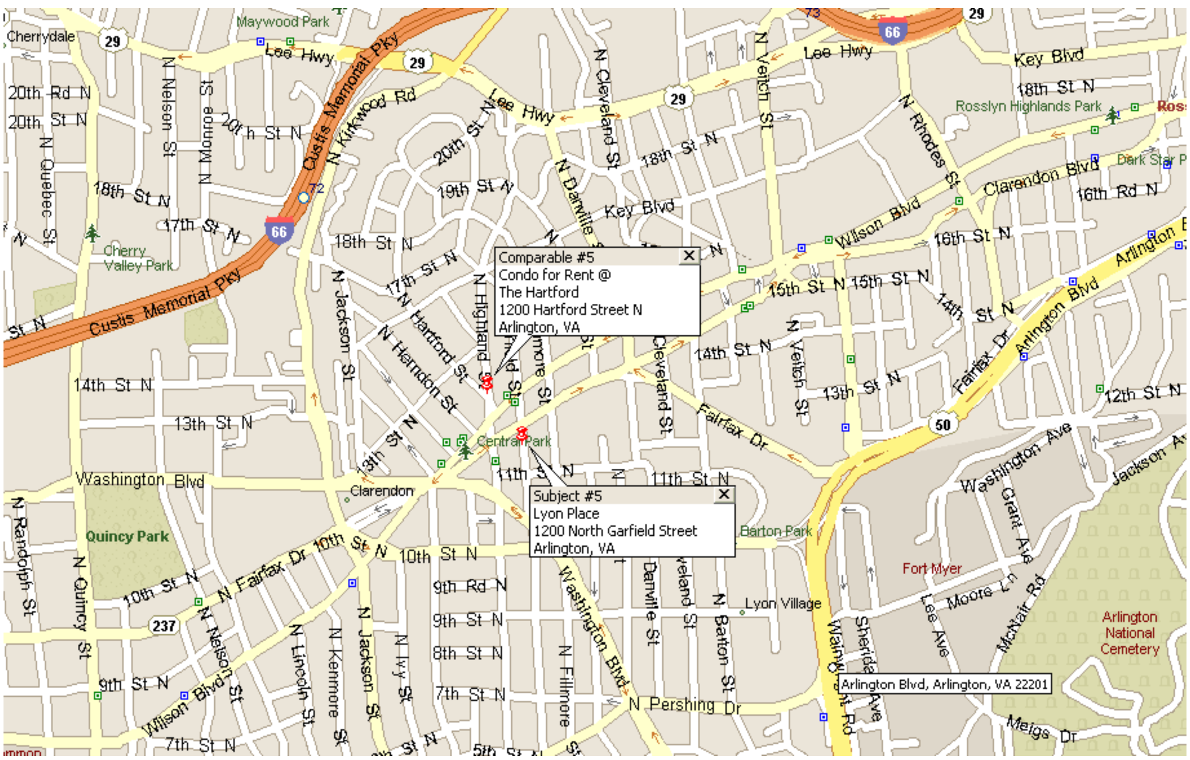
Comparable #5			
Name	The Hartford	Year Built	2003
Address	1200 Hartford Street N #101	Floors	6
City	Arlington	Number of Units	70
State	VA	Class	lux cond
Zip	22201	Unit Type	2 bed/ 2 bath
Submarket	Clarendon	Asking Rent/Mo	3,300
Distance from Subject	0.2 miles	Unit Size (SF)	1,300
		Asking Rent/SF	2.54

Amenities: None

(Source: Metropolitan Regional Systems, Inc.)

Summary #5		
Asking Comp Rent/SF	2.54	
Adjustments		
Older Building	3%	Note: $1,000/year
Total Adjustments	0.08	
Adjusted Rent/SF	2.61	
Wisconsin Place	3.38	
Amenity Premium	0.76	

Maps of Subject and Comparable #5



APPENDIX 5
COMPARABLES

Listing Details for Subject and Comparable #5

	Lyon Place[43]
Property Overviews	
Address	1200 N Garfield
State	Virginia
Neighborhood	Clarendon
Year Built	2010
Developer/Owner	BF Saul
Buildings	1, 11 story bldg
Units	244
Retail?	y
Avg Monthly Rent ($/SF)*	3.06
"Luxury" Fees	
Amenity (one time)	600
Pet (one time)	350 cat/ 750 dog
Pet Rent (monthly)	none
Parking (monthly)	95-195
Storage (monthly)	75
Property Amenities	
Club Room	y
Theater/Media Lounge	n
Fitness Center	y
Yoga Studio	n
Pool	indoor
Business Center	y
Garden/Courtyard	y
Roof Decks	n
Underground Parking	y
Storage	y
Furnished guest suites	y
Property Services	
WiFi in Amenity area	y
24 hour concierge	y
Plant Watering	n
Mail Pick Up	n
Pet Sitting	n
Valet Dry Cleaning	y
24 Hour Maintenance	y
Zipcar Carsharing on-site	n
Unit Specifications	
Unit outdoor spaces	some
Ceiling Height	9+
Countertops	granite
Cabinets	maple
Appliances	SS - GE Enrgy Str
Stovetop	gas
Tile	porcelain
Flooring (living area)	hardwood
In-unit Washer/Dryer	y
Walk in Closest	y

Lyon Place [48]

Lyon Place [48]

Lyon Place [48]

THE HARTFORD, 101

1200 HARTFORT ST N #101, ARLINGTON, VA 22201
$3,300
2 Bed/ 2 Bath
$/ Sq Ft
1300 Sq Ft

MLS ID: AR7551961

Listing Provided Courtesy of Century 21 Redwood Realty

APPENDIX 6
PRO FORMA

				STABILIZED										
	-Year 2	**-Year 1**	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**
Potential Gross Income		144,328	1,019,463	1,374,557	1,402,048	1,430,089	1,458,691	1,487,864	1,517,622	1,547,974	1,578,934	1,610,512	1,642,723	1,675,577
Forgone Rent?	No			-	-	-	-	-	-	-	-	-	-	-
Vacancy		(7,216)	(50,973)	(68,728)	(70,102)	(71,504)	(72,935)	(74,393)	(75,881)	(77,399)	(78,947)	(80,526)	(82,136)	(83,779)
Concesssions		(7,216)	(50,973)	(68,728)	(70,102)	(71,504)	(72,935)	(74,393)	(75,881)	(77,399)	(78,947)	(80,526)	(82,136)	(83,779)
Effective Gross Income		129,896	917,517	1,237,101	1,261,843	1,287,080	1,312,822	1,339,078	1,365,860	1,393,177	1,421,040	1,449,461	1,478,450	1,508,019
Addtl Income		-	-	40,625	41,438	42,266	43,112	43,974	44,853	45,750	46,665	47,599	48,551	49,522
Net Rental Income		129,896	917,517	1,277,726	1,303,281	1,329,346	1,355,933	1,383,052	1,410,713	1,438,927	1,467,706	1,497,060	1,527,001	1,557,541
Operating Expenses														
Maintenance/Cleaning		-	-	-	-	-	-	-	-	-	-	-	-	-
Overhead		55,000	90,000	90,000	91,800	93,636	95,509	97,419	99,367	101,355	103,382	105,449	107,558	109,709
Management		3,897	27,525	37,113	37,855	38,612	39,385	40,172	40,976	41,795	42,631	43,484	44,354	45,241
Total OpEx		58,897	117,525	127,113	129,655	132,248	134,893	137,591	140,343	143,150	146,013	148,933	151,912	154,950
NOI		70,999	799,991	1,150,613	1,173,625	1,197,098	1,221,040	1,245,461	1,270,370	1,295,777	1,321,693	1,348,127	1,375,089	1,402,591
Operating Margin				*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	
Reserves														
Debt Service				(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	(920,490)	
Refi Cost				(131,445)										
CFaDS		70,999	799,991	98,679	253,136	276,608	300,550	324,971	349,880	375,288	401,203	427,637	454,600	
Amortization				(169,094)	(179,077)	(189,650)	(200,847)	(212,705)	(225,263)	(238,562)	(252,647)	(267,563)	(283,360)	
Amenity Levered CFs														
Initial Equity Req	(219,525)													
Operating CFaDS	-	70,999	799,991	98,679	253,136	276,608	300,550	324,971	349,880	375,288	401,203	427,637	454,600	
Addlt Equity Req/CF at Refi				12,632,241										
CF from Reversion													21,578,321	
Loan Balance													(10,925,700)	
Closing Costs													(647,350)	
Levered CFs	(219,525)	70,999	799,991	12,730,920	253,136	276,608	300,550	324,971	349,880	375,288	401,203	427,637	10,459,871	
cash on cash return		*32%*	*364%*	*5799%*	*115%*	*126%*	*137%*	*148%*	*159%*	*171%*	*183%*	*195%*	*4765%*	

Levered IRR	331%	
NPV	16,969,460	10%

Amenity Unlevered CFs														
Initial Equity Req	(701,750)													
Operating CFs	-	70,999	799,991	1,150,613	1,173,625	1,197,098	1,221,040	1,245,461	1,270,370	1,295,777	1,321,693	1,348,127	1,375,089	
CF from Reversion													21,578,321	
Closing Costs													(647,350)	
Unlevered CFs	(701,750)	70,999	799,991	1,150,613	1,173,625	1,197,098	1,221,040	1,245,461	1,270,370	1,295,777	1,321,693	1,348,127	22,953,410	
cash on cash return		*10%*	*114%*	*164%*	*167%*	*171%*	*174%*	*177%*	*181%*	*185%*	*188%*	*192%*	*3271%*	

Unlevered IRR	84%	
NPV	15,240,796	10%

APPENDIX 7
LEASE UP SCHEDULE

Total Units	250
Leaseup (Units/mo)	15

Year -1

Revenue

Month	Units Leased/mo	Total Units Leased	AVG NSF	Rent/SF	Total
1					
2					
3					
4					
5					
6					
7	15	15	850	0.54	6,873
8	15	30	850	0.54	13,746
9	15	45	850	0.54	20,618
10	15	60	850	0.54	27,491
11	15	75	850	0.54	34,364
12	15	90	850	0.54	41,237
Y End TOTAL		90			**144,328**

OpEx

	Time/Type	Employees	Ann Salary	
Concierge	Day/Service	1	35,000	35,000
	Night/Security	1	20,000	20,000
			TOTAL	**55,000**

Year 0

Revenue

Month	Units Leased/mo	Total Units Leased	SF	Rent/SF	Total
1	15	105	850	0.54	48,109
2	15	120	850	0.54	54,982
3	15	135	850	0.54	61,855
4	15	150	850	0.54	68,728
5	15	165	850	0.54	75,601
6	15	180	850	0.54	82,473
7	15	195	850	0.54	89,346
8	15	210	850	0.54	96,219
9	15	225	850	0.54	103,092
10	15	240	850	0.54	109,965
11	10	250	850	0.54	114,546
12	0	250	850	0.54	114,546
Y End TOTAL		250			**1,019,463**

OpEx

	Time/Type	Employees	Ann Salary	
Concierge	Day/Service	2	35,000	70,000
	Night/Security	1	20,000	20,000
			TOTAL	**90,000**

APPENDIX 8
SENSITIVITY ANALYSIS

Operating Margins

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250	30%	40%	64%	74%	79%	83%	85%	86%	88%	89%
	200	13%	25%	56%	68%	75%	79%	82%	84%	85%	87%
	150		1%	42%	58%	67%	73%	77%	79%	81%	83%
	100			14%	39%	52%	61%	66%	70%	74%	76%
	50					7%	24%	35%	44%	50%	55%

Unlevered IRRs

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250	4%	10%	24%	34%	42%	49%	56%	62%	68%	74%
	200		2%	19%	28%	36%	43%	49%	55%	60%	66%
	150			11%	21%	28%	34%	40%	45%	50%	55%
	100				10%	18%	23%	28%	33%	37%	41%
	50						2%	10%	13%	17%	20%

Unlevered NPVs

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250		156,368	1,698,611	3,240,854	4,783,097	6,325,340	7,867,583	9,409,826	10,952,069	12,494,312
	200			969,136	2,202,931	3,436,725	4,670,520	5,904,314	7,138,108	8,371,903	9,605,697
	150			239,662	1,165,007	2,090,353	3,015,699	3,941,045	4,866,391	5,791,736	6,717,082
	100				127,084	743,981	1,360,878	1,977,776	2,594,673	3,211,570	3,828,467
	50							14,506	322,955	631,404	939,852

Levered IRRs

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250	3%	17%	92%	141%	178%	208%	234%	258%	279%	299%
	200			63%	114%	151%	180%	206%	229%	249%	269%
	150			24%	76%	114%	144%	169%	191%	211%	229%
	100				19%	58%	90%	116%	138%	157%	174%
	50							15%	35%	56%	74%

Levered NPVs

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250		265,091	1,972,959	3,680,826	5,388,693	7,096,560	8,804,427	10,512,294	12,220,161	13,928,028
	200			1,165,144	2,531,439	3,897,732	5,264,026	6,630,320	7,996,613	9,362,907	10,729,200
	150			357,330	1,382,051	2,406,771	3,431,492	4,456,212	5,480,932	6,505,652	7,530,372
	100				232,662	915,809	1,598,957	2,282,104	2,965,251	3,648,397	4,331,544
	50							107,994	449,568	791,142	1,132,716

APPENDIX 8
SENSITIVITY ANALYSIS

Operating Margins: Including Forgone Rent Factor

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			48%	67%	75%	80%	83%	85%	87%	88%
	200			28%	57%	69%	75%	79%	82%	84%	85%
	150				35%	55%	65%	72%	76%	79%	81%
	100					18%	41%	53%	61%	67%	71%
	50									11%	27%

Unlevered IRRs: Including Factor for Forgone Rent

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			11%	23%	31%	38%	44%	50%	55%	60%
	200			2%	17%	25%	32%	37%	43%	48%	52%
	150				6%	16%	23%	29%	34%	38%	42%
	100						9%	16%	21%	25%	29%
	50										2%

Unlevered NPVs: Including Factor for Forgone Rent

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			301,506	1,843,749	3,385,992	4,928,235	6,470,478	8,012,722	9,554,965	11,097,208
	200				805,826	2,039,620	3,273,415	4,507,209	5,741,004	6,974,798	8,208,593
	150					693,248	1,618,594	2,543,940	3,469,286	4,394,632	5,319,978
	100							580,671	1,197,568	1,814,465	2,431,363
	50										

Levered IRRs: Including Factor for Forgone Rent

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			26%	88%	130%	161%	188%	211%	231%	250%
	200				52%	98%	132%	158%	181%	202%	220%
	150				6%	51%	89%	118%	142%	162%	180%
	100						16%	50%	78%	102%	121%
	50										

Levered NPVs: Including Factor for Forgone Rent

		Premium/sf per month									
		0.04	0.05	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Unit Count	250			464,298	2,172,165	3,880,033	5,587,900	7,295,767	9,003,633	10,711,500	12,419,367
	200				1,022,777	2,389,071	3,755,365	5,121,659	6,487,952	7,854,246	9,220,539
	150					898,110	1,922,831	2,947,551	3,972,271	4,996,991	6,021,712
	100						90,295	773,442	1,456,590	2,139,737	2,822,883
	50										

APPENDIX 9
PRO FORMA INCLUDING FORGONE RENT FACTOR

				STABILIZED										
	-Year 2	**-Year 1**	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**
Potential Gross Income		144,328	1,019,463	1,374,557	1,402,048	1,430,089	1,458,691	1,487,864	1,517,622	1,547,974	1,578,934	1,610,512	1,642,723	1,675,577
Forgone Rent?	yes			(91,800)	(93,636)	(95,509)	(97,419)	(99,367)	(101,355)	(103,382)	(105,449)	(107,558)	(109,709)	(111,904)
Vacancy		(7,216)	(50,973)	(64,138)	(65,421)	(66,729)	(68,064)	(69,425)	(70,813)	(72,230)	(73,674)	(75,148)	(76,651)	(78,184)
Concessions		(7,216)	(50,973)	(68,728)	(70,102)	(71,504)	(72,935)	(74,393)	(75,881)	(77,399)	(78,947)	(80,526)	(82,136)	(83,779)
Effective Gross Income		129,896	917,517	1,149,891	1,172,889	1,196,347	1,220,274	1,244,679	1,269,573	1,294,964	1,320,863	1,347,281	1,374,226	1,401,711
Addtl Income		-	-	40,625	41,438	42,266	43,112	43,974	44,853	45,750	46,665	47,599	48,551	49,522
Net Rental Income		129,896	917,517	1,190,516	1,214,326	1,238,613	1,263,385	1,288,653	1,314,426	1,340,714	1,367,529	1,394,879	1,422,777	1,451,232
Operating Expenses														
Maintenance/Cleaning		-	-	-	-	-	-	-	-	-	-	-	-	-
Overhead		55,000	90,000	90,000	91,800	93,636	95,509	97,419	99,367	101,355	103,382	105,449	107,558	109,709
Management		3,897	27,525	34,497	35,187	35,890	36,608	37,340	38,087	38,849	39,626	40,418	41,227	42,051
Total OpEx		58,897	117,525	124,497	126,987	129,526	132,117	134,759	137,454	140,204	143,008	145,868	148,785	151,761
NOI		70,999	799,991	1,066,019	1,087,340	1,109,087	1,131,268	1,153,894	1,176,971	1,200,511	1,224,521	1,249,012	1,273,992	1,299,472
Operating Margin				*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	
Reserves														
Debt Service				(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	(852,815)	
Refi Cost				(121,781)										
CFaDS		70,999	799,991	91,424	234,525	256,272	278,454	301,079	324,157	347,696	371,707	396,197	421,177	
Amortization				(156,662)	(165,911)	(175,707)	(186,080)	(197,066)	(208,701)	(221,023)	(234,072)	(247,892)	(262,527)	
Amenity Levered CFs														
Initial Equity Req	(287,025)													
Operating CFaDS	-	70,999	799,991	91,424	234,525	256,272	278,454	301,079	324,157	347,696	371,707	396,197	421,177	
Addlt Equity Req/CF at Refi				11,508,353										
CF from Reversion													19,991,871	
Loan Balance													(10,122,436)	
Closing Costs													(599,756)	
Levered CFs	(287,025)	70,999	799,991	11,599,777	234,525	256,272	278,454	301,079	324,157	347,696	371,707	396,197	9,690,856	
cash on cash return		*25%*	*279%*	*4041%*	*82%*	*89%*	*97%*	*105%*	*113%*	*121%*	*130%*	*138%*	*3376%*	

Levered IRR	280%	
NPV	15,460,800	10%

Amenity Unlevered CFs														
Initial Equity Req	(926,750)													
Operating CFs	-	70,999	799,991	1,066,019	1,087,340	1,109,087	1,131,268	1,153,894	1,176,971	1,200,511	1,224,521	1,249,012	1,273,992	
CF from Reversion													19,991,871	
Closing Costs													(599,756)	
Unlevered CFs	(926,750)	70,999	799,991	1,066,019	1,087,340	1,109,087	1,131,268	1,153,894	1,176,971	1,200,511	1,224,521	1,249,012	21,265,863	
cash on cash return		*8%*	*86%*	*115%*	*117%*	*120%*	*122%*	*125%*	*127%*	*130%*	*132%*	*135%*	*2295%*	

Unlevered IRR	68%	
NPV	13,843,691	10%