

Johns Hopkins Carey School of Business

Final Practicum for a Masters Degree in Real Estate

Re-development of a Retail Site in Charlottesville, VA

Submitted By

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-Johns Hopkins Carey School of Business- Edward St. John School of Real Estate Practicum

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Overview

Charlottesville, VA has recently become a burgeoning city with an increasing artistic and musical influence thanks to several successful bands (Dave Matthews, Tim Reynolds, and Parachute are a few) being discovered there. This influence, along with the natural injection of young professionals that the University of Virginia creates has brought a youthful renaissance to a city once devoid of a young adult population. This demographic change has presented a multitude of business and real estate opportunities. The Downtown Mall has been the area's biggest beneficiary, adding an amphitheater, playhouse, two musical theaters, and numerous bars and restaurants. This artistic explosion has also attracted ancillary residential, commercial, retail, and mixed use development in the area. This practicum will outline a unique development opportunity which will capitalize on the demographic and economic changes in Charlottesville.

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Introduction

Development Description:

The proposed Development will involve combining a small independent theater and an Italian restaurant into a single structure that will show both first-run movies as well as independent films, while also offering patrons high-end food and alcohol service during the movie. In order to accommodate various genres of movies and additional capacity, a second story will be built on top of the current structure. Re-design will then take place to create a trendy exterior that would better convey the interior environment of the theater.

Additionally, a boutique hotel will be constructed on top of the current structure to take advantage of the ideal location and a perceived dearth of quality hotel space in the Downtown Mall area. Obvious synergies could also arise through placing two complimentary destinations that cater to a similar demographic on the same lot.

Demographic and market feasibility studies support the current demand for this specific genre of theater in Charlottesville which would be unique to the area. Market Studies also show a lack of hotel space in the immediate competitive set near the Downtown Mall area, and specifically the a lack of boutique hotels in an area where many new restaurants, shops and residential spaces would support a more modern, lodging experience.

Location:

The proposed site is in historic downtown Charlottesville, VA just off the pedestrian shopping mall. Currently the two targeted buildings are adjacent and connected to one another. One building is currently being used as the Vinegar Hill Movie Theater while the neighboring structure is occupied by an Italian restaurant called Camino.

Specifically, Vinegar Hill refers to the segment of West Main Street as it moves from Second Street, SW up to Fourth Street. This portion of Main Street has also acquired the name of Random Row in recognition of the way that the street deviates from the regular grid of the original town plan.ⁱ

Vinegar Hill is just off the Western most end of the Mall which is considered the lesser developed side. A hockey rink and the high end Omni Hotel are the main destinations. There has been less residential and commercial development in comparison to the East End which has the new Charlottesville Pavilion that hosts many concerts and shows throughout the year.

The proposed site is also just two miles away from The University of Virginia.

Current Use:

The current theater is a single screen operation that exclusively plays independent films. Vinegar Hill has a strong niche following due to Charlottesville's large, young liberal population. It was recently voted the best theater in Charlottesville for 2009 by *Cville*ⁱⁱ. However, these accolades are largely due to the publication bestowing the honor as well as a lack of quality theaters in the immediate area. Besides Vinegar Hill, the other movie theaters in the area are all chain establishments that offer only a generic movie viewing experience at best.

The Italian restaurant, Camino, is a slightly run-down establishment in an area where it has to compete with a continuous influx of trendy restaurants and bars as well as many established local favorites. The restaurant industry in Charlottesville is extremely competitive and has been ranked in certain publications as having one of the highest per capita restaurant-to-population ratios in the countryⁱⁱⁱ. For a restaurant to thrive in Charlottesville it must have unique

food fare or an environmental flare that separates it from the hundreds of food establishments in the immediate area. Camino is housed by a modest building that does not fit well aesthetically or functionally with the increasingly trendy environment surrounding the Mall. Through observation on weeknights and weekends, the restaurant seems to be habitually empty and has a non-existent reputation in the city. The threadbare website also provides further proof that the restaurant is not wildly successful by any means. All of this points towards the conclusion that a pure restaurant is not the highest and best use for the current space and would be better served supplementing the theater next door. Additionally, the previous tenant of the space was also an Italian restaurant called Il Canne Pazzo which did not perform well and had to shut its doors^{iv}. This lends further credence to the notion that a restaurant, particularly an Italian restaurant, would not be a good fit for this space.

Impetus and Inspiration for the Proposed Project:

My first inclination that a theater which served food and alcohol might be successful in Charlottesville was about 10 years ago when I visited a venue in Charleston, SC. This particular theater had 2nd run movies and served bar food and beer. While the environment and food were not exactly what I had in mind for the theater in Charlottesville, the general idea struck a chord with me. As far back as 8 years ago I immediately thought of Vinegar Hill as a suitable location for this venue. I have followed the theater's artistic and financial progress and have seen it put on and taken off the market. I have also made it a point to visit other theaters like the one I envisioned for Charlottesville. Most have disappointed, including the Arlington Cinema and Draft House in the DC area, which served poor food and flat beer and only screened older movies. However, my interest was recently renewed in the project on visiting a theater called the Alamo in Austin, TX. This theater embodied what I saw Vinegar Hill becoming. It not only screened indie films as well as first run movies, but also served higher end food and wine which added a level of class to the experience. The theater was packed on the occasion I frequented it, and from word of mouth I gleaned that it normally operates at full capacity. I also see many similarities between the cities of Austin and Charlottesville and think of Charlottesville as a smaller version of Austin in many ways. The burgeoning young adult population and incredible live music venues in both cities creates a perfect target audience for a theater that provides an artistic and social outlet. Both cities are also liberal-minded college towns located in the middle of very conservative southern states.

Vision:

The final product that I envision for the two spaces discussed above would be to transform an ordinary, underutilized space into an entertainment and cultural landmark in Charlottesville. The process would begin by purchasing and combining the two buildings in the Vinegar Hill area into one structure. The kitchen area of Camino would remain to serve as the kitchen for cooking the theater fare. The current restaurant seating area however would be transformed into a contemporary bar space for patrons who wish to have cocktails and appetizers before their movie, discuss the merits of the show afterwards, or just come in and enjoy drinks and good conversation.

In addition to re-designing the space to better reflect the inner ambiance, an additional story would be built on top of the existing structure to permit for an additional theater. This would allow the theater to screen the indie movies that have drawn its niche following as well as showing first run movies to increase its general popularity. I view the current seating capacity at Vinegar Hill to be ideal and will plan to duplicate the lower level floor plan when expanding to the second floor. However, it should be noted that some seats will have to be removed in order to make space for tables so that customers can enjoy a dining experience. This will be discussed in detail later in the practicum.

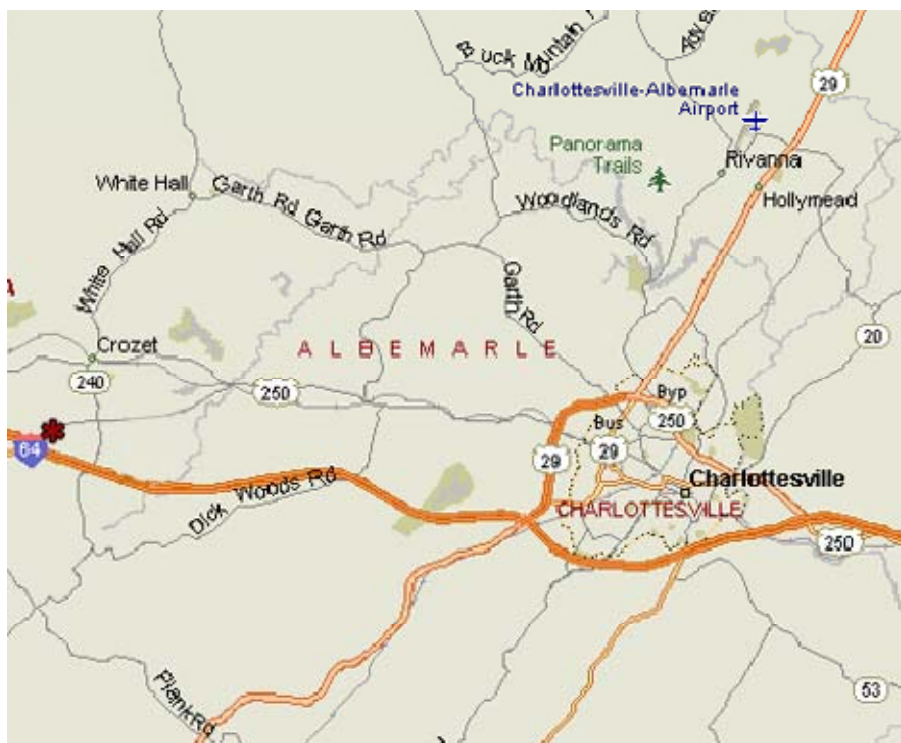
Finally, a 30 room boutique hotel would be constructed on top of the two story theater. The entrance for this hotel would be nicely situated in the rear of the theater where there would be a lobby and elevator up to the lodging area.

The location of the proposed project will provide stunning panoramic views from the hotel rooms due to its position on top of a steep hill on West Market Street as well as being in close proximity to very few buildings over 4 stories.

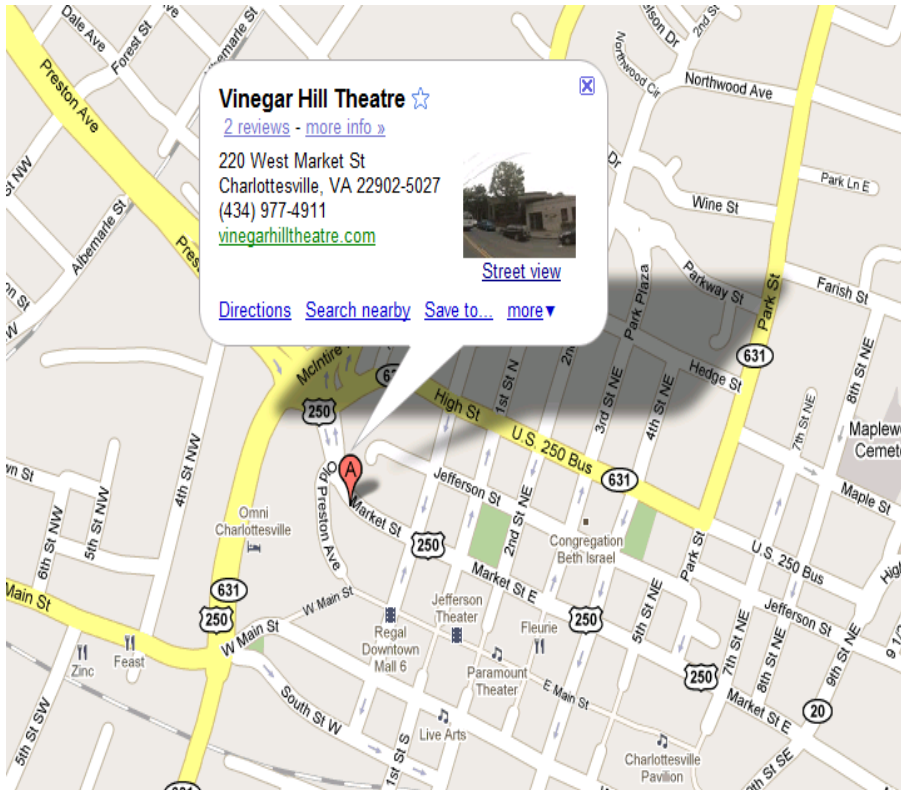
From an operational standpoint, I plan to lease the theater space out and only act as the landlord. Target tenants would be smaller niche operators like The Alamo or AMC. However, from speaking to people in the hospitality business, it makes more sense to retain control of the hotel and hire a property manager to run the daily business activities. Kimpton would be a logical management company to enlist since they already operate smaller boutique hotels in the Mid-Atlantic region.

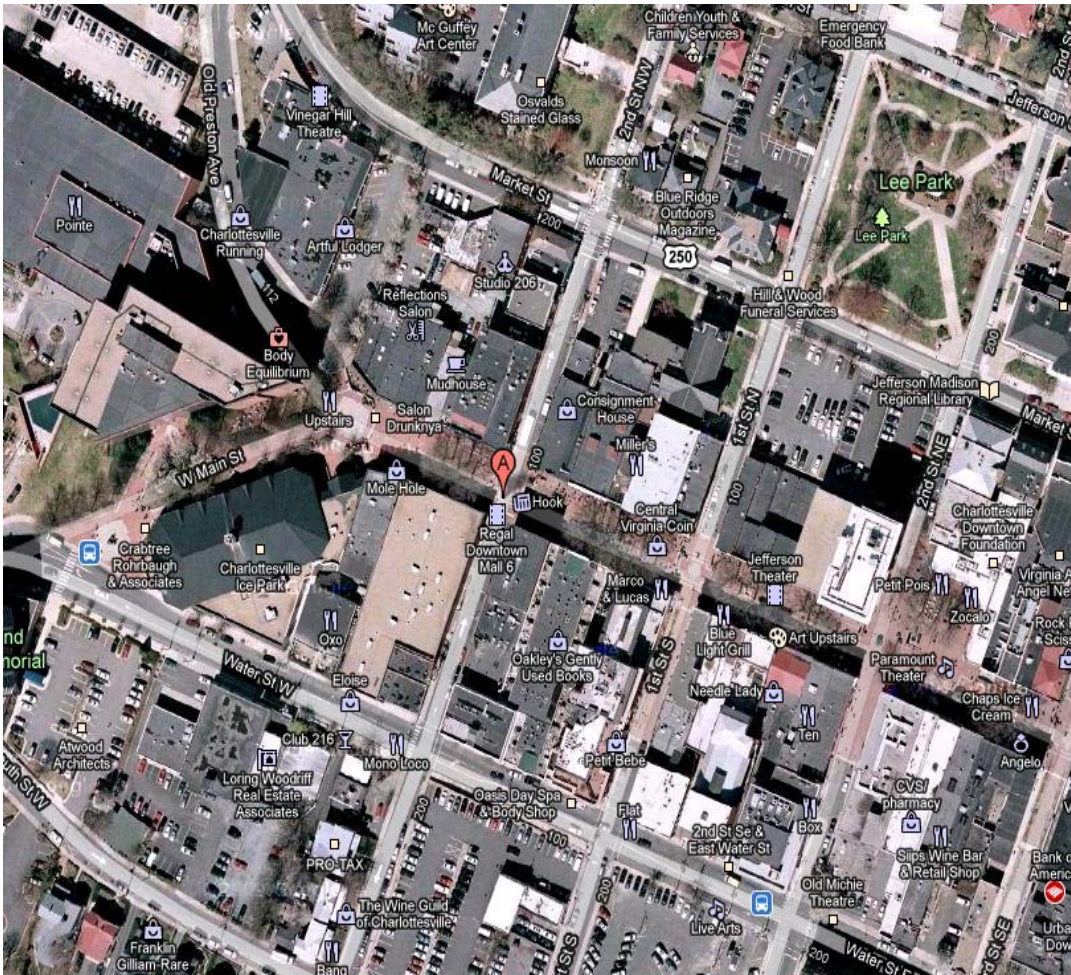
Maps

Regional



Local





DOWNTOWN MALL

Commercial & Cultural Heart of Charlottesville



Pictures of the current structure:



Feasibility Study: Zoning

There are three central issues that had to be investigated before moving forward with due diligence. The answers to these issues would determine if the proposed project could be executed in a manner consistent with my vision.

- Can the two buildings be combined into a single structure?
- Can I add an additional level and additional screen to the existing Vinegar Hill Theater?
- Can I build a 30 room hotel above the aforementioned combined structure?

-When meeting with Reed Broadhead of the City of Charlottesville Zoning Commission, I learned that the answer to the first question regarding combining Camino and Vinegar Hill into a single building was an emphatic "Yes." The only obstacle with this proposal would be obtaining the appropriate construction permits^v.

-The current zoning for the two properties is "Downtown Corridor (D): Mixed Use."^{vi} This zoning actually promotes taller structures than those currently in place. To build a new development in this zoning district the minimum height must be more than forty-five feet^{vii}. Of course existing structures like the two properties in question are grandfathered in and although they are less than the current minimum height, they are not in violation of the code. However, for the purpose of the proposed project the current zoning bodes well as it would certainly allow for an additional level to be built on top of Vinegar Hill to accommodate an additional theater. On the other hand, Reed disclosed that theaters in the "D" zoning area are restricted to one screen per structure without a special use permit^{viii}. I have learned that special use permits are usually a formality and much easier to obtain than a zoning variance. The nearby Regal 6 Downtown Mall is permitted to have six screens because this parcel was zoned "Non-Conforming" and thus could accommodate more screens by-right^{ix}.

-The maximum height for buildings in the "D" zoning area is seventy feet which would most likely allow for the proposed hotel project that would add three additional floors on top of the original structure plus the proposed second level to

Vinegar Hill. This would amount to a total height of sixty-feet which would be within the zoning guidelines. However, if additional height was required, a special use permit can be obtained to allow new structures to be up to one hundred-one feet. This is what the now defunct Landmark Hotel received approval for when planning their 9-story hotel that is now sitting incomplete and years from resolution. More detail on this hotel will be provided when analyzing the surrounding competition. Minimal step-back requirements of 5 Ft and set-backs that promote building to the property line imply an FAR that could easily accommodate the theater addition and a 15,000 sq ft hotel based on the 6,500 sq ft lot. This would assume that each hotel room would be 400 sq ft and also allow for 3,000 sq ft for hallways and a lobby.

Additional Zoning and City Regulations:

In addition to the above zoning concerns, there were some supplementary items that needed to be investigated prior to moving out of due diligence and into development.

-Obtaining liquor licenses can sometimes be a cumbersome process that can prevent a project's timely completion. Currently, Camino has a liquor license but Vinegar Hill does not. The transferability of this license when combining the two spaces needed to be investigated. A representative from the Virginia ABC Department informed me that it was certainly feasible to transfer the ABC license from Camino to the combined structure. The only obligation from the developer would be to apply for an extension to serve alcohol to a larger space than was previously permitted. Additionally, if the original license is a mixed beverage license (meaning you are allowed to serve hard liquor in addition to beer and wine) you must disclose any additional seating because the cost of the license could increase. According to www.abc.virginia.gov the cost of a mixed use alcohol license in the state of Virginia for an area accommodating more than 151 people would be \$1,430. Based on the expected capacity of the finalized theater this cost should be factored into the budget.

-Parking can also be another contentious issue, especially when developing in urban areas like the Downtown Mall. Parking requirements created by the increased density I am proposing needed to be determined due to the prohibitive cost of an underground parking structure. The additional space added to the theater and the construction of a small hotel will not add significant traffic to the area, so most likely no supplementary parking structures will have to be built. If additional parking is compulsory, these requirements could be offset by offering certain proffers to the city in lieu of an underground structure.

After reading through the extensive, yet vague zoning code pertaining to parking requirements, it was determined that there is no rigid verbiage outlined for the surrounding Downtown Mall area, especially as it pertains to smaller projects. This could have been predicted as there is ample public parking provided by the city which nearly all the 150 restaurants and vendors on and around the Mall rely. The Market Street Lot, Market Street Garage, and Water Street Garage allow visitors to the Mall to park and walk to every establishment in the area^x.

The high-rise hotel, The Omni, has its own garage but virtually every other merchant on the mall takes advantage of the generous garage space. Another factor that points toward no parking space being required is the city approval of the Landmark Hotel just blocks away. The Landmark was a 100 key hotel that was under construction when the bank funding the project collapsed. There were no additional parking requirements for this project^{xi}.

Furthermore, a recently approved 27 room boutique hotel on 14th street near UVA had a parking plan approved to contract with nearby parking garages in lieu of providing additional space^{xii}. Based on the available garage space near the Mall this would most likely be the solution to any parking issues involved with the proposed development.

A final issue that needed to be explored before moving forward was the architectural review process. Charlottesville has a reputation of having a fastidious review board, so understanding what the city will be looking for before formulating design plans will be necessary in order to not waste time and money.

I firmly believe that the current structures do not reflect the upscale, trendy design environment that many new developments have created on the Mall. My vision for the theater would require an overhaul of the exterior of the theater to create a more modern yet historically respectful feel. Based on the BAR's opinion of the Landmark whose design is considered modern, my proposal would have no issues making the cut. According to an article in The Hook detailing the development process of the Landmark, the BAR considered the design to be a "Homerun."^{xiii}

Feasibility Study: Demographics/UVA Impact

A large part of Charlottesville's historical success and regional draw can be accredited to the area's largest employer, The University of Virginia. "Mr. Jefferson's University" is consistently ranked among the top three public higher-learning institutions in the United States. The School of Engineering and Applied Science, the McIntire School of Commerce, the Darden School of Business, the Judge Advocates General's School, the Law School and the Medical School are all consistently ranked in the top tier of their respective fields and provide a source from which industry and business are continually recruiting qualified personnel^{xiv}. This is particularly important for the young professional population in Charlottesville that drives demand for trendy restaurants, bars, music venues, and theaters.

The University itself is also a major factor when considering the demand for the proposed project. It is a natural source of young, educated people that would be drawn to an artistic theater that also served fine food and alcohol. Currently there are over 20,000 students that attend both undergraduate and graduate school that are not counted in the citywide demographic study because they are not year round residents. There also could be a dramatic increase in the growth rate of the undergraduate enrollment in the coming years. While this could be looked at as a bad thing for the academic reputation of the university, it could be a boon for local hotel owners and merchants. More students also mean more parents and relatives that need lodging accommodations when visiting. There are several scenarios that incoming president Teresa Sullivan has proposed to shore up some financial shortfalls at the University. Two of these involve raising the overall enrollment numbers over the next 10 years. The most aggressive plan calls for admitting 500 more students than they currently would accept for ten years and then return to their standard one percent increase per year. This would dramatically increase the student population and would add an additional 5,000 students on campus in the next five years^{xv}. An increase in enrollment also suggests that more alumni will be returning to the area for sporting events and other school functions.

Proposed Future Enrollment Based on UVA's Expansion Plan			
University of Virginia			
On-Grounds Fall Headcount Enrollment			
Year	Total	Undergrad.	Graduate
2015	27,062	17,577	9,485
2014	25,804	16,908	8,896
2013	24,558	16,245	8,313
2012	23,325	15,589	7,736
2011	22,104	14,940	7,164
2010	20,895	14,297	6,598
2009	18,853	13,900	4,953
2008	18,666	13,762	4,904
2007	18,466	13,636	4,830
2006	18,144	13,353	4,791
2005	18,100	13,401	4,699
2004	17,772	13,140	4,632
2003	17,523	12,907	4,616
2002	17,207	12,748	4,459
2001	16,896	12,595	4,301
2000	16,649	12,489	4,160

Feasibility Study: Market and Demographics Overview

Employment:

Subject is located within 130 miles of Washington, DC and is an economically diverse area with convenient access to major highways and close proximity to larger metropolitan areas. The region is an emerging center for new business development in communication, information technology, finance, biotechnology, manufacturing and distribution. It has and will continue to serve a major role in the decentralization of the U.S. Federal Government as it tries to minimize exposure to acts of terrorism. For example, the Department of the Army has recently announced that they would be adding over 900 jobs at the National Ground Intelligence Center (NGIC), located less than 5 miles from the subject

property^{xvixvii}. This is just one example of how this region's proximity and access to Washington DC has proven to be a tremendous advantage.

According to a recent study done at VCU, Charlottesville has become a haven for high-technology firms in the area. The city is now home to over 270 high-tech firms that employ 3,000 workers with an average annual wage of roughly \$65,000.^{xviii}

There have been several private equity and hedge funds that have popped up recently which have retained young talent from Darden and attracted employers nationally. Quantitative Investment Management (QIM) was started by a Darden graduate and has become the largest hedge fund in the Southeast^{xix}. Investure was also started by UVA graduates and has become a force in the private equity and trading world. These types of employers have brought numerous young professionals with disposable income to the area.

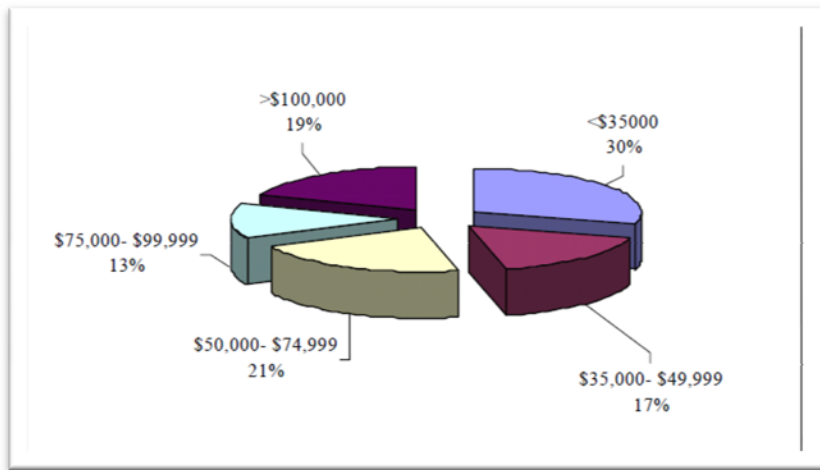
While Charlottesville has not been completely sheltered from the deep recession American currently finds itself in, this strong employment base as well as the University of Virginia and all of the ancillary businesses spawned by its presence have mitigated the employment destruction that the rest of the country is experiencing. While the unemployment rate has been on the rise in the past year, the MSA jobless rate of 6.6% is well below the national rate of more than 10%.^{xx}

Jobless rates		Percentage of work force that is unemployed and actively seeking work.		
Location	JAN. 2010	DEC. 2009	JAN. 2009	
Charlottesville Metropolitan Statistical Area*	6.6	5.4	5.3	
Charlottesville	8.0	5.8	6.0	
Albemarle	5.9	4.8	4.8	
Buckingham	9.8	8.9	7.6	
Fluvanna	6.6	6.1	5.4	
Greene	6.7	5.8	5.7	
Louisa	9.9	9.0	7.3	
Madison	7.2	6.0	6.0	
Nelson	7.3	6.2	6.6	
Orange	9.0	7.9	7.7	
Virginia	7.6	6.7	6.4	

*Includes Charlottesville, Nelson, Albemarle, Fluvanna and Greene

Income

Charlottesville residents earn much more than the average worker across the country. These high salaries allow Charlottesville residents to have a large ratio of disposable income to spend on entertainment. The average household income within a three and five-mile radius of the property is \$67,613 and \$77,799 respectively as of a 2007 study^{xxi}. We will see that the incomes for specific pockets surrounding the Mall are actually much higher when analyzing the retail trade area. The population within the same radii is forecast to grow an additional 8.8% in the next three years.



Population/Education

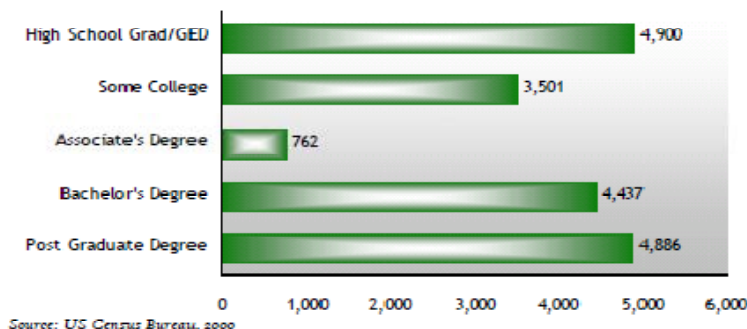
While the population within the actual city limits of Charlottesville remains relatively small (roughly 41,000 according to the latest estimates), the MSA has exploded in recent years and is predicted to maintain strong growth rates moving into the future. The MSA population has increased more than 20% in the last decade and shows no signs of slowing^{xxii}. Plans to increase density on the Mall area will speed up the growth rates of the actual city population as well.

What makes the Charlottesville population mix so unique is the age distribution. Almost 45% of the city's demographic is made up of people between the ages of 20 and 39, with roughly 30% of these people being in their 20's. This bodes well for the proposed development that will depend on a younger target group that spends disposable income of entertainment and food away from home^{xxiii}.

The percentage of educated residents in Charlottesville is also highly unusual. Roughly 50% of the adult population has at least a college degree and half of this population subset has a post graduate degree. This fact is a main driver behind why the Downtown Mall has seen such a cultural explosion and figures to be very important to the success of the expansion of the Vinegar Hill Theater^{xxiv}.

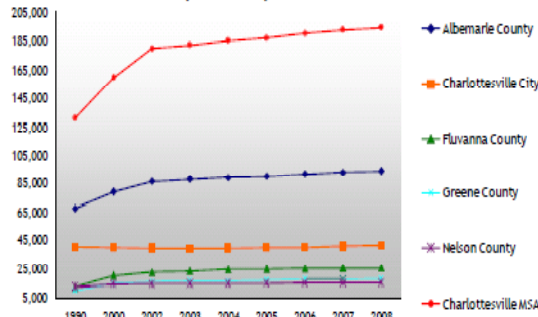
EDUCATION

Charlottesville Population by Level of Education—2000



ESTIMATES & PROJECTIONS

Charlottesville Area Population by Location—1990-2008



Source: US Census Bureau, 2008

Charlottesville & MSA Counties' Projected Populations - 2000-2030

Area	2000	2010	2020	2030	% Change 2000-2010	% Change 2000-2030
Albemarle County	79,236	96,247	107,760	120,456	21.47%	52.02%
Charlottesville City	40,099	40,639	41,423	42,278	1.35%	5.43%
Fluvanna County	20,047	28,971	37,433	47,010	44.52%	134.50%
Greene County	15,244	19,269	23,088	27,231	26.40%	78.63%
Nelson County	14,445	15,557	16,668	17,898	7.70%	23.90%
Charlottesville MSA	174,021	200,683	226,372	254,873	15.32%	46.46%

MSA Population—194,391 (2008)

(Includes Charlottesville City, Albemarle County, Fluvanna County, Greene County, & Nelson County)

Cville Population—41,487 (2008)

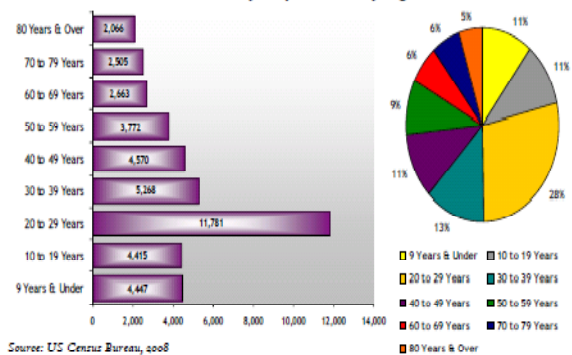
Population Density—4,533 people/square mile

Population Growth Since 2000—3.5%

Source: US Census Bureau, 2008

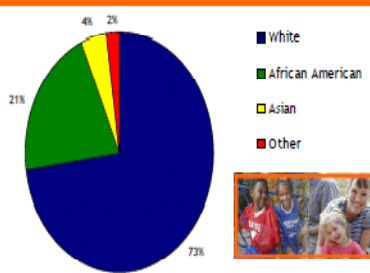
AGE

Charlottesville City Population by Age—2008



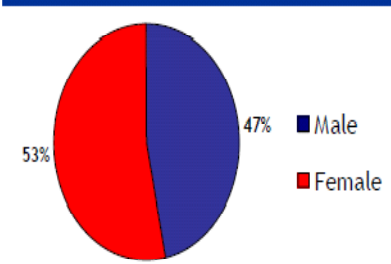
Source: US Census Bureau, 2008

RACE



Source: US Census Bureau, 2008

GENDER



Tourism/Quality of Life

Tourism is very important to the local economy as the region sees many visitors come for University related events as well as to see historic sites like Monticello and Montpelier. This demographic component is obviously also very germane when you are estimating hotel demand.

In a recent study done in 2007, it was discovered that the average traveler to the area spends \$587 passing through Charlottesville. 75% of this is spent on lodging and food. 78% of visitors come for either vacation or to visit family or friends. Charlottesville visitors tend to be older (median age is 54) couples that have high household incomes (60%>50K)^{xxv}.

Another component of the region's tourism-related revenues is the fast growing winemaking industry. Albemarle County houses 435 acres of grapes, making it the most productive county in the Commonwealth of Virginia. Twenty-three vineyards can be found in the county and surrounding areas (www.monticellowinetrail.com). The King Family Vineyard has become especially popular for out of town weddings and events.

Located roughly 10 miles from the subject property, Charlottesville-Albemarle Regional Airport offers regional and national service to the Charlottesville area. CHO provides direct jet service to and from several major metro areas including Atlanta, New York, Washington DC, and Charlotte. Major carriers providing service to the area include Delta, United, US Air and Northwest. It is estimated that over 300,000 passengers use the airport nationally^{xxvi}.

Further evidence that Charlottesville is poised to continue to grow in the near future and beyond can be found in the slew of awards the region receives. Numerous magazines have declared Charlottesville a great place to live, work, play, and retire.

Top "Brainiest" Metropolitan Areas - *The Atlantic*, Number One City for Retirement - Kiplinger.com,
 Healthiest Place to Live - *Men's Journal* magazine 2010, Top Place to Retire - *Kiplinger* magazine 2010,
 4th Best Place to Live in the Country - *Kiplinger's Magazine* 2009, 11th Best Town to Find a Job - *Forbes Magazine* 2009,
 One of the 30 Coolest Neighborhoods, Belmont - *Men's Health Magazine* June '09,
 AARP, Top 10 Healthiest Places to Retire, 2008,
 Best Places to Retire, *Black Enterprise Magazine*,
 2nd in 2008, Best Small Market for Business by *Forbes Magazine* - 9th Place in 2008,
 Best City for Living and Launching a Business by *Fortune* and *Money* Magazines - 18th Place in 2008,
 Top Ten Digital City, Center for Digital Government, 3rd 2005, 4th 2006, 6th 2007, 5th 2008, 4th 2009,
Southern Business & Development Magazine: #1 on the list of 10 "Really Cool Small Southern Markets",
Money Magazine: Best Places to Live, *Kiplinger's Personal Finance*: #2 Healthiest Place to Live in America,
Men's Journal: #3 Healthiest Small City to Live in America, *Tennis Magazine*: Best Tennis Town (#1),
American Health: Top Ten Healthiest Cities for Women (#6), *Golf Digest*: Best Retirement City for Golfers (#1),
 Arts and Entertainment Television: One of the Best Places to Live in America (#6),
 E-Podunk.com: Best Small College Town (#1),
Reader's Digest: Top Ten Places in the Country to Raise a Family (#7 out of 50),
 Best Trail Running, *Outside Magazine* 2006,
Business Journals – Best Places to Work – June 2005, *Cottage Living Magazine*, Great Place to Live,
 Forbes/Milken Institute: Best Small Places for Business and Career 2001 (#12),
 Top Five Green Cities, *Blue Ridge Magazine*, 2006,
Forbes Magazine – Best Small Places to Do Business – Rank 22, Best Place to Relocate, *Relocate America*, 2006,
Travel 50 & Beyond: Top Ten Great Places to Retire 1999, *Money Magazine* 100 Best Places to Live – August 2004,
Modern Maturity Magazine: Most Alive Places to Live (#2 College Town).

Feasibility Study: Trade Area Analysis

Since part of the proposed development can be classified as a retail project it is necessary to analyze the specific trade area surrounding the subject property. The primary trade area can be classified as the region immediately surrounding the Mall.

Income

By 2012 the income range with the greatest share of households in the area immediately around the subject site is expected to be 100K-149K. The second highest concentration is expected to be in the 50K to 75K range. The number of people in the 150K-199K range is expected to grow by 53% between 2007 and 2012. The 100K-149K range is expected to experience a 48% increase^{xxvii}. The trade area average household expenditures as of 2007 are as follows:

-19% Food and Drink Away From Home

-31% Food and Drink At Home

-19% Recreation

-7% Healthcare

-8% Household Equipment

-14% Apparel

-1% Computer^{xxviii}

These numbers point to a healthy percentage of disposable income being spent on visits to movies or restaurants.

Housing

Signals point towards the Downtown area becoming more of a dense, mixed use area rather than the byproduct of a college town. As of 2007 the downtown area had been slated for over 500 housing units planned in the immediate district. The city has gradually become denser with the majority of new construction being townhomes and condominiums. In 2006 more condos and townhomes were sold than in any other year in the city's history. This real estate pattern is a positive trend for retail establishments on the Mall as more and more people look to be moving into the area^{xxix}.

Higher priced condo developments on the Mall display the kind of disposable income available to young professionals in the immediate area. Certain projects like the Randolph, the Holsinger, and the Gleason have demanded prices above \$450 per square foot^{xxx}.

High demand for rental units on the Mall also confirms the existence of a highly transient young population. Vacancy rates remain very low, hovering below 4.5% per year.^{xxxi}

Since Charlottesville is a highly desirable place to retire, senior housing developments are consistently full, with occupancy rates north of 95%. The majority of the buyers for this type of unit are children buying units for their parents so that they can move and live near them. 90% of senior housing units are purchased by adult children.^{xxxii}

Office

Much of the high end Class B office space in Charlottesville resides in office parks like Jefferson Place off Route 250. But the Mall has a certain allure for creative firms and start-ups with its unique layouts and close proximity to food and entertainment. Some technology firms have begun to migrate to the Mall area for these same reasons coupled with lower rents. The new Waterhouse development slated to begin construction soon will house hundreds of employees from the local travel company Worldstrides^{xxxiii}. Increased office activity can only bode well for any restaurant, bar or movie theater in the area.

Feasibility Study: Competition

-Theater

Competition for the proposed theater is sparse in the Mall area and even more so citywide. There is one theater that currently serves the Mall and UVA vicinity besides Vinegar Hill. This would be the Regal 6 located on the East end of the Mall near the Omni. This theater has six screens and has a traditional movie atmosphere with no special food or beverage choices. The Regal also exclusively plays first run, mainstream films and does not screen independent pictures. Other theaters in Charlottesville like the Carmike 6 and Regal Seminole Square are far away from the central Mall area off route 29 North.

To dispel the concern that the neighboring Regal 6 theater would saturate the supply of screens in the immediate competitive set, a comparison can be drawn to the Charles Theater in Baltimore. The Charles is similar to the proposed project in that it shows both mainstream and independent films. It also offers alcohol and food service. The Charles is in fairly close proximity to the more traditional AMC and Landmark theaters. However, the Charles has maintained a niche following and does well despite these nearby competitors due to the unique viewing experience it gives its patrons as well as the artistic, educated residents that live in the area^{xxxiv}.

Additional concerns that the Regal 6 Downtown's presence will preclude the new Vinegar Hill from being successful can be laid to rest when considering two factors:

-The current Vinegar Hill Theater is already a popular theater and has a niche following in Charlottesville. It was recently voted "Best Theater for 2009" by the popular paper "CVILLE."^{xxxv}

-The Downtown Mall has had an artistic and cultural renaissance in the last few years. New restaurants, clubs, concert halls, bars, art museums, and yoga studios have popped up in abundance. The proposed theater would fit well with this environment and piggy back off the success of current venues and establishments. Examples of current popular settings include:

-The Southern: This bar/concert hall has become a popular music venue in Charlottesville and attracts local bands as well as popular regional acts.

-Jefferson Theater: This one time movie theater was recently transformed into a music venue by. It has become a popular venue drawing national acts like the Black Crowes and Drive By Truckers.

-The Paramount: Also a theater of days gone by, this establishment has been turned into a classic venue to present concerts and live theatrical performances.

-Lighthouse Studio: This non-profit media education center encourages youths to make movies with a focus on personal experience and local stories. This is an example of how devoted the Charlottesville area is to the arts.

-McGuffy Art Center: An artist association that supports the artistic growth of emerging artists in both visual and performing arts. McGuffy has open studios, exhibitions, classes and tours to reach out to the local artist community.

-Restaurants: Some of the trendier restaurants that occupy the side streets of the Downtown Mall are Bang, Ventana, Hamilton's, C&O, and Maya.

These establishments already draw scores of students, young professionals and adults in the area to the Mall, and the new Vinegar Hill will benefit greatly from their existence.

Hotel

Lodging establishments in the immediate area and their room counts are seen below:

-Hampton Inn and Suites: 100 rooms

-Courtyard Marriot Main Street: 130 rooms

-The Omni: 204 rooms

-South Street Inn: 25 rooms

-Inn at Court Square: 12 rooms

-Red Roof Inn: 135 rooms^{xxxvi}

Only The Omni, South Street, and Inn at Court Square are hotels on the Mall. The other hotels are in the UVA area, and none of these can be considered boutique hotels like the one proposed in this plan.

A Smith Travel Research Report suggests excess demand for hotels in the area, specifically in the upscale market segment. Room demand looks to be the highest in the late Spring and early Fall due to graduation and Homecoming events. Dependence on UVA for occupants looks to be a positive trend with the increased enrollment plans in place for the University^{xxxvii}.

Average daily rates (ADR) were at \$118 in 2007 while revenue per room (REVPAR) was at \$87 for the same year. Additionally, average annual occupancy rates hovered around 70%.^{xxxviii}

There is clear demand for another hotel on the Mall. The aforementioned Landmark Hotel went through the entire review process and passed with flying colors before failing due to the collapse of the lending institution involved. The hotel is currently a shell that has been exposed to the elements for the last 2 years^{xxxix}. The general consensus is that the Landmark will most likely be in limbo for years as developer Lee Danielson is hung up in litigation. Even though the project was a failure due to overzealous spending and failed financing, the existence of the project lends credence to the belief that there is demand for such a hotel. Additionally, the Landmark was slated to be a 9 story 100 key hotel which is much larger than the proposed project. If this project was approved by the city there must have been sufficient evidence of demand.

Charlottesville has also recently been bitten by the boutique hotel bug. In April, the Alcove condominium on 14th Street was approved to be a 27-room boutique hotel. The reason the owner decided to transform this apartment complex into a hotel was due to a perceived dearth in hotel space in the area. The representative for the investment group involved in the decision stated that market research "shows that demand for hotel space in town 'far exceeds' supply." Another 23-unit boutique hotel behind Cabell Hall has also been approved by the city commission. Both of the above hotels are

in the University area so would not be immediate competitors for the proposed project which will be specifically focused on providing badly needed hotel space for the Mall area^{xi}.

Current Structure/Use/Financials:

Per the public land records the current structure that houses Camino and Vinegar Hill was built in 1949 and has a gross square footage of 4,200 sq ft. The building was purchased on 8/1/1991 by the current owner, Ann Porotti of Charlottesville, VA. The price which she purchased the structure for was determined to be an “Invalid Price” per the record due to the low sales price of \$50,000. Over the last two years the building has been assessed at \$845,500^{xli}.

The restaurant is small and only has 1,100 sq ft while the theater occupies the remaining space and has 3,100 sq ft. The structure sits on .14 acres and includes a small parking area^{xlii}.

The theater was opened in a former auto showroom in 1976 by Porotti and former husband Chief Gordon who owns the popular nearby restaurant Felini’s^{xliii}. Even though the theater has been in operation for more than 30 years, it has not always been a financial success. Porotti contemplated selling the establishment several times in the last decade only to reconsider. However, in 2008 the fiscal strain became too much and she finally relinquished operational duties to a Staunton, VA theater company called Visulite^{xliv}. Porotti did not sell the building though and remains the owner and landlord.

The restaurant portion of the structure has not been without problems either. Il Canne Pazzo was the previous tenant prior to Camino opening its doors. Pazzo was also an Italian restaurant and went out of business due to the fierce competition in the restaurant industry on the Mall.

When assessing the profitability of each current tenant, it would be ideal to get pro-forma data from either Porotti or the actual tenant. However, as expected, calls to all parties involved were not returned. As a result, pro-formas for similar restaurants and other market data were used to create a probable pro-forma with multiple scenarios. This data allowed me to determine how much the building was worth based on the projected NOI and market capitalization rate. Current market cap rates for Charlottesville were determined through conversations with local brokers as well from viewing current listings for commercial properties in the area^{xlv}.

Based on local comparable pro-formas^{xlvi}, market data, and projected market capitalization rates, projected NOI for each tenant and subsequent building value is summarized below:

Camino projected current yearly NOI: \$31,038.34

Vinegar Hill projected current yearly NOI: \$35,780.92

Projected Charlottesville Cap Rate for retail properties: 9.0%

Projected building value based on capitalization rate method: \$742,436.20

Current assessed value for building: \$845,500.00

***Supporting pro-formas for both tenants are attached

The pro-forma for Camino was created using a combination of comparable available restaurant pro-formas obtained from brokers in the area. Observation of Camino's menu and surveying friends in Charlottesville who have attended the restaurant were other research methods employed. From all of these factors, I was able to estimate the restaurants average meal cost, number of tables, probable table turn rate, and expense ratios.

The pro-forma for Vinegar Hill was slightly more complicated to formulate. No pro-formas from comparable theaters were available so market research had to be done on larger big box theater chains to obtain probable expense ratios. However, the number of theaters, average ticket price, and concession prices were easily obtained. Customer volume was acquired through surveying people who frequent the theater on a regular basis. Certain abnormalities exist in the theater business that are not present in other retail segments. For example, roughly 50% of ticket sales in theaters of Vinegar Hill's stature go to movie studios^{xlvii}, so the majority of gross profit must come from concession sales. This is the primary reason for such high markups for items such as popcorn and soda in the theater. Hence, cost of goods sold ratios are largely different from other retail segments.

When coming to a final valuation of 220 West Market Street, other factors had to be considered such as the owner's motivations based on the longevity of her term at the location and probable debt on the property. Porotti has owned the building since 1991 so there has to be some sentimental worth priced into the valuation. Additionally, due to the length of ownership, it must be assumed that very little or no debt exists on the property. Based on these factors, there must be a premium applied to either the assessed value and/or the valuation derived from the income/cap rate approach. So even despite the lower valuations and recent woes of tenants occupying the property, I have conservatively grossed up the probable purchase price of the structure to \$1,000,00.00 for the investment analysis^{xlviii}.

New Theater and Hotel Pro-Formas/Capital Costs

After I determined the probable cost of the targeted structure, the next step was to determine what the capital costs and leasing terms would be for the proposed development. This would enable me to create pro-formas for both the theater and the hotel to analyze returns. Once each project's cash flows were determined and an ROI and IRR were calculated, I could then present the prospective development to investors and eventually create an equity waterfall model based on an arrived hurdle rate and profit sharing structure.

-Theater Capital Costs

-Combination: Once both spaces are acquired, the first step will be to combine the two spaces into the dinner theater that I had envisioned. After some minor construction permits and additional licenses (liquor) are acquired, some minor construction will need to be done. The wall between Camino and the existing Vinegar Hill will be knocked down to join the spaces. The small restaurant area will then be renovated to serve as a bar area. This work will not be extensive as the condition of Camino is good and the layout already suits a small bar space. Most likely 1 or 2 tables will have to be removed to allow for a full bar to be installed. The existing Camino kitchen will remain to serve as the kitchen to serve dinner to theater patrons. Construction costs for this work were provided by local architect Leigh Herndon and her fiancé Michael Boyes who owns a local construction company. These estimates can be found in the attached CapEx Schedule for the theater portion of the development.

-Theater lobby updates: Since the facade of the theater will be updated to convey a trendier exterior, the interior lobby will need to be updated to some extent. No major construction is planned for this phase as the theater lobby is in good condition. New flooring, paint, and artwork will be installed to complete the lobby area. These upgrade costs can also be found in the CapEx schedule for the theater.

-Original theater renovations: Since this will be a dinner theater, it will require a unique space to allow for tables that permit patrons to eat and drink. Based on visits to other dinner theaters and most notably the model theater Alamo in Austin, TX, I estimated that a normal theater would have to remove roughly 1/3 of the existing seats to allow room for the installation of tables.

Addition: The addition that I envision for the new Vinegar Hill to allow for an additional theater to provide for a variety of movie screenings will go above the current structure. The existing theater spans 3,100 sq ft, however a portion of this space is for a concession area and lobby. I estimated that an additional 2,500 sq ft be required to house a second theater area and a stairwell/elevator shaft to access the 2nd floor. The scope of this construction work will be much more extensive than the aforementioned renovations. Because there will be an addition on top of an existing structure, this work will require engineers, a general contractor and an architect. Once again I enlisted Leigh and Michael's help to determine the cost of this endeavor as well as the work required to update the exterior of the final product to a brick facade. They were able to generate a cost per sq ft figure of \$95. This does not itemize each upgrade and also does not include soft costs which they provided to me separately. These costs can also be found in the attached CapEx schedule for the theater.

According to Michael and Leigh, the time to finish these upgrades and additions would take approximately 10 months. However, without doing an extensive construction review this timeframe could change. Admittedly, this is probably the assumption that has the largest potential to be modified once due diligence is complete.

-Hotel Capital Costs

The proposed hotel portion of the development is planned to be constructed on top of the renovated theater outlined above with the entrance in the rear of the building where the small parking lot exists. This positioning will allow for maximum height to take advantage of the spectacular views that the Vinegar Hill area offers. It will also give hotel customers an off-street entrance with temporary parking to allow them to check-in before continuing on to one of the many parking structures located a short distance away. As mentioned in the preliminary section of this paper, the hotel will be a small boutique with 30 rooms.

I was able to generate a more detailed itemized construction costs break-out for the hotel portion of the project with the help of a colleague who works in the GE Hotel Division. Chris Hew was a classmate of mine in the John's Hopkins Program and was able to provide me with a CapEx schedule and pro-forma of a recent boutique hotel that he recently had underwritten that is comparable to the one I had envisioned.

His general opinion was that a boutique hotel would cost an estimated \$125,000 per key to build in the Charlottesville area. With this knowledge, I was able to take the CapEx schedule that Chris provided which detailed per room cost ratios and come to a dollar figure for each line item. These line items consisted of general and administrative costs, design costs, permit costs and hard construction costs. This breakdown can be found in the attached CapEx schedule for the hotel portion of the project.

Chris deemed the construction time period for a smaller boutique hotel to be roughly 9-10 months. However, since the construction would likely have to be done in concert with the upgrade to the theater, I decided it would be prudent to model a 12 month construction period for the hotel. As mentioned before, the construction timeline is probably the most tenuous assumption used in this development.

-Theater Pro-Forma:

Much like the process I went through in developing projected financial statements for the current tenants, efforts to obtain actual pro-formas from comparable dinner theaters like the Alamo were unsuccessful. As a result, I used information obtained from multiple sources as well as relying on the restaurant and theater pro-formas that I used to

develop projections for current uses. Even though I am not going to be active in operating the theater portion of the development, the revenue that the business generates is incredibly germane to my cash flow as a landlord because a percentage rent clause exists in the majority of retail leases. Thus, producing a probable revenue stream would be important.

One data collection method I employed was visiting the Alamo Theater in Austin to survey patrons, obtain menus, and speak to employees in an effort to firm up an idea of what kind of revenue my vision of the new Vinegar Hill would be able to generate. Some of the data that I gathered ranged from ticket prices, show times per day, and show times per week. Other valuable intelligence was gained from the Alamo's menu. In a dinner theater setting you would normally not serve gourmet food as the meals have to be served quickly and somewhat haphazardly by waiters in a dark, silent environment. But most patrons of a theater that caters to independent film enthusiasts also don't want to exclusively eat chicken wings and light beer. The Alamo does a fantastic job of having a menu that combines upscale bar food with more traditional restaurant entrees. The beverage menu was also impressive and offered a variety of beer served in bottles, buckets or pitchers as well as an extensive wine list. I was able to use the pricing available from this menu to generate probable food and beverage prices for the tenant of the theater.

One pressing question I had about a dinner theater that could have a large impact on revenue projections was: Does every customer who visits the Alamo order food or a beverage? Do patrons come for the movie alone? You would think that the majority of customers could go to a traditional movie theater if they were not interested in having a dining experience. I asked several members of the wait-staff this question and they confirmed that almost everyone who comes to see a movie at the Alamo does order either some sort of alcoholic beverage or food item. Through these conversations I was able to determine what percentage of the customers ordered from the menu and generally how much the average person spends on food and beverage. I was also able to get estimates on how full the theater is during certain show times and days of the week. All of these things were tremendously helpful in developing a probable revenue number for the theater that would lease out the newly renovated space.

Ultimately, the revenue projection established would be used to generate the percentage rent portion of the revenue stream I would plan on receiving from the tenant. The next step would be to determine what sort of lease terms I could negotiate based on the city, space and tenant I was seeking. Since I could not get access to the lease for the building that The Alamo operated in or any other dinner theater, I requested help from a friend who works at Real Estate Capital Partners in Reston, VA. Real Estate Capital Partners is a large commercial real estate firm that purchases and manages buildings of all asset classes for institutional investors. Although they did not have any buildings that leased space out to a dinner theater, they did rent space to several independent theaters throughout the country. I was able to obtain a redacted pro-forma for one of these theaters which I used to create assumptions for the lease terms that I would generate for my own property. Essential information like lease term, type of lease (triple net, full service, etc.), base rent per square foot, rent escalation, and an acceptable percentage rent were revealed from this comparable pro-forma. I was also able to glean what kind of leasing commissions and tenant improvements to expect. All these assumptions flowed into the 10 year cash flow statement that is attached for the new Vinegar Hill. It should be noted that other than the construction period which was deemed to be roughly a year, there was no lease-up or vacancy period required due to the single tenant space.

In order to get a reversion value to predict the disposition value of the property at the end of the lease, I had to come up with a terminal cap rate. Since cap rates 10 years removed from the present are almost impossible to predict, I simply used the going-in cap rate provided by the commercial broker that I used to determine the current value of the structure and subtracted 150 basis points to reflect the improvements I plan for the building as well as market appreciation.

In terms of financing the complete development, I chose to have separate notes for the theater piece and the hotel side of the project. Because one is retail and the other is hospitality, I felt their cash flows patterns could vary significantly and thus would prefer to have different financing terms. I once again relied on my friend at Real Estate Capital Partners to give me an accurate picture of what sort of commercial loan I could obtain in today's challenging credit markets. I obtained the Federal Reserve prime rate from public sources but needed to understand what sort of risk spread I would

have to pay as well as the term and loan type (IO or amortizing). Perhaps the most important factor when attempting to obtain financing in the post-bubble era is the loan to value and debt service coverage ratios. I was given estimates based on what he was seeing in the debt markets real time and applied that to my pro-forma for the theater.

After understanding how much equity I would have to inject into this development to make it attractive to lenders, I used the knowledge I had gained from my colleague and put together a sources and uses diagram which included any construction, closing and financing costs. I began with a general 65 LTC assumption for the construction loan and then was able to create a construction loan schedule for the initial phase of the project which included an interest reserve analysis that allowed me to come to an appropriate number for a final take out loan. Finally, I took the take out loan amount I had arrived at and did a loan to cost analysis, a loan to stabilized value analysis, and a DCR breakdown to make sure the loan amount would be appropriate in the current lending environment. Satisfied that the derived loan amount had passed all of these tests, I now had all the information to arrive at a final cash flow statement for the new Vinegar Hill which can be found in the attached Excel documents.

Some of the key assumptions used to generate this cash flow analysis are seen below:

-Patrons who purchase refreshments: 70%. *Alamo employees and patrons who were interviewed confirmed that almost all of the customers at the dinner theater order some sort of alcohol or food item. I used 70% to allow for loyal customers of the original Vinegar Hill that would be accustomed to only coming to the theater for a good film.*

-Seats per theater: 65. *The original theater had a seating capacity to accommodate roughly 100 people. However, with the addition of tabletops to allow customers to eat and drink, I estimated that 35% of the seats would need to be removed. After these renovations each theater would be left with 65 seats.*

-Theater capacity on weekends: 65%. *Although Alamo employees and patrons testified that the weekend shows were generally sold out, I stuck to my assumption regarding the Vinegar Hill weekend attendance of 65%.*

-Base Rent: \$13.00. *I derived this assumption from a sample pro-forma provided by a colleague who works at Real Estate Capital Partners.*

-Percentage Rent: 5%. *Since percentage rent can vary drastically from lease to lease, I came up with a number that seemed reasonable based on the projected revenues for the tenant.*

-Reserve Assumption: \$3 per square foot. *After consulting with colleagues in the commercial real estate field, I learned that a typical reserve allowance is roughly \$3 per square foot.*

-Vacancy in renewal year: 25%. *I made a general assumption that tenant improvements in the renewal year would disrupt business operations and no rent would be collected for 3 months.*

-Option: 5 years. *Most retail leases have a 5 year term with a 5 year renewal option. For this development I assumed that the tenant would in fact renew the lease and stay for a total of 10 years.*

-Tenant improvement allowance: \$4 per square foot. *This is a typical allowance based on sample retail pro-formas.*

-Leasing commissions: 6%. *Normally 5-6% is a standard commission paid to a commercial broker for a new lease. However, half that amount is normally charged for a renewal. But due to the unique retail space that only*

caters to a small number of tenants, I viewed the renewal as an extremely important factor in the success of the development. Thus, I modeled to pay the broker twice what he would normally be compensated to ensure that he convinced the tenant to renew.

-Escalation: 3%. *From speaking to colleagues who work in retail I gleaned that 3% was a generally accepted escalation clause.*

-Interest Rate: 6.25%. *My colleague Jonathan Herbert at Real Estate Capital Partners quoted me rates in the current capital markets environment.*

-Terminal cap rate: 7.50%. *I derived the going in cap rate of 9.0% from local commercial broker Jeff Bloxsom. Jeff has worked at CBRE and Hasbrouck Realty in Charlottesville. I took that cap rate and decreased it 150 basis points to reflect the upgrades to the property and a perceived general strength in the Charlottesville commercial real estate market over the next 10 years.*

-Hotel Pro-Forma:

When constructing the pro-forma for the prospective hotel development, I again consulted with my colleague from Johns Hopkins, Chris Hew. Not only did he provide me with a detailed breakdown of the construction costs that would be incurred for this portion of the project, but he also was able to share a sample pro-forma from a comparable development his company had just underwritten. He also reviewed said pro-forma and advised me on how to adjust some of the assumptions to cater to my specific development.

Using this information, I was able to determine essential assumptions like occupancy rate and average daily rate (ADR). Chris also helped me determine how these rates would change as the project stabilized. Additionally, the pro-forma had a breakdown of expense, revenue and reserve ratios which I could apply to my development.

Lastly, Chris was able to tell me from his experience in the region what an appropriate terminal cap rate would be for this hotel. This rate enabled me to come to a re-sale value at the end of a ten year period.

I also needed to finalize my assumptions for debt and equity expectations for the hotel as I did for the dinner theater. Chris was able to again give me some estimates on loan terms for the construction financing and take-out loan that would follow. The methodology I employed to get to a final loan amount was similar to the process I used for the theater loan. I put together a sources and uses analysis based on the Cap-Ex schedule determined earlier, then built an interest reserve model to come to a final loan amount. Once this was achieved I checked this loan amount against the stabilized value to make sure that the loan to value ratios were in-line with what is required in today's lending market. Debt-coverage ratios and loan-to-cost ratios we also validated to make sure they worked. Interest rates for the hotel portion of the project will most likely be higher than for the retail segment. It is widely believed that the hospitality industry is the riskiest of all commercial real estate classes because the operator of the hotel technically only has a 1 day lease on the space it is trying to rent out. Vacancy is much harder to predict, thus there is a considerable amount of default risk involved.

Some of the key assumptions used to generate the hotel cash flow analysis are seen below. Many of the expense and cost of goods sold ratios were derived from the sample pro-forma Chris Hew provided:

-Initial ADR: \$129. I spoke to Chris about probable ADRs for the market and specific hotel genre. I also researched other local hotel ADRs and deemed \$129 to be an acceptable, albeit conservative starting point.

-ADR growth rate: 7%/5%/3%. Seeing that I view the initial ADR as low for luxury hotels in the market, I increased the ADR 7% in the second year to reflect the initial buzz surrounding the hotel and assumed success of the theater. In the third year, I implemented an additional 5% increase to reflect a waning, but still existent curiosity factor surrounding Charlottesville's first boutique hotel. Starting in the fourth year I instituted a flat 3% increase into perpetuity to reflect a CPI increase.

-Initial occupancy rate: 65%. I once again consulted with Chris about where a new hotel should project an initial occupancy rate. I also took into account the city wide occupancy rate based on Smith Travel Research Reports as of 2007. I began at a lower level to account for the new concept of a boutique hotel in the area.

-Occupancy growth rate: 5%/3%/2%/1%/0%. Similar to the ADR incremental logic used above, I envision occupancy rates jumping up 5% in the second year to reflect increased awareness and interest in the hotel. This will steadily taper off until the sixth year when I model a 0% increase in occupancy into perpetuity.

-Management fee: 5%. Chris quoted a normal management fee of 3-4% with 4% being on the absolute high side. But due to the small size of the hotel I deemed it appropriate to raise the fee to 5% in order to attract a reputable operator.

-Initial marketing cost ratio: 9%. Despite normal marketing costs usually equaling 6% of hotel revenue, I started the expense rate at 9% due to the novel idea of a boutique hotel in the city. Word of the hotel's opening would need to spread quickly in order to maximize the occupancy rate.

-Marketing growth rate: 8%/7%/6%. The marketing blitzkrieg necessary to spread the word about the hotel opening will slowly dwindle once it has become a recognized name in the city. I project marketing expense to drop 1% a year until the fourth year when it will remain at 6% of total revenue into perpetuity.

-Food and beverage revenue: According to the sample pro-forma obtained from Chris, revenue obtained from food and beverage in a smaller boutique hotel equates to roughly 30% of the revenue generated from the actual rooms.

-Departmental expenses: Determining the operating expenses for the hotel would be important in deriving an accurate NOI. I used the pro-forma Chris provided to determine expense ratios. Room expenses total **35%** of revenue generated from lodging. Food and beverage expenses are **80%** of revenue. Telephone expenses are **75%** of revenue, and miscellaneous expense will run at **57%** of revenue.

-Interest rate: 7.35%. Chris was able to quote me a probable interest rate from the current capital markets environment for hotel loans. The risk premium for hotel debt is probably the highest of all the asset classes due to the incredibly short duration of the leases (nightly).

-Terminal cap rate: 7.50%. I took the same approach for the hotel exit cap rate as I did for the theater terminal cap. I made a general assumption of a 150 basis point improvement based on market appreciation over a 10 year period. Chris also validated this terminal cap rate as within reason for boutique hotels.

Equity Distributions and Conclusions

Equity Distributions:

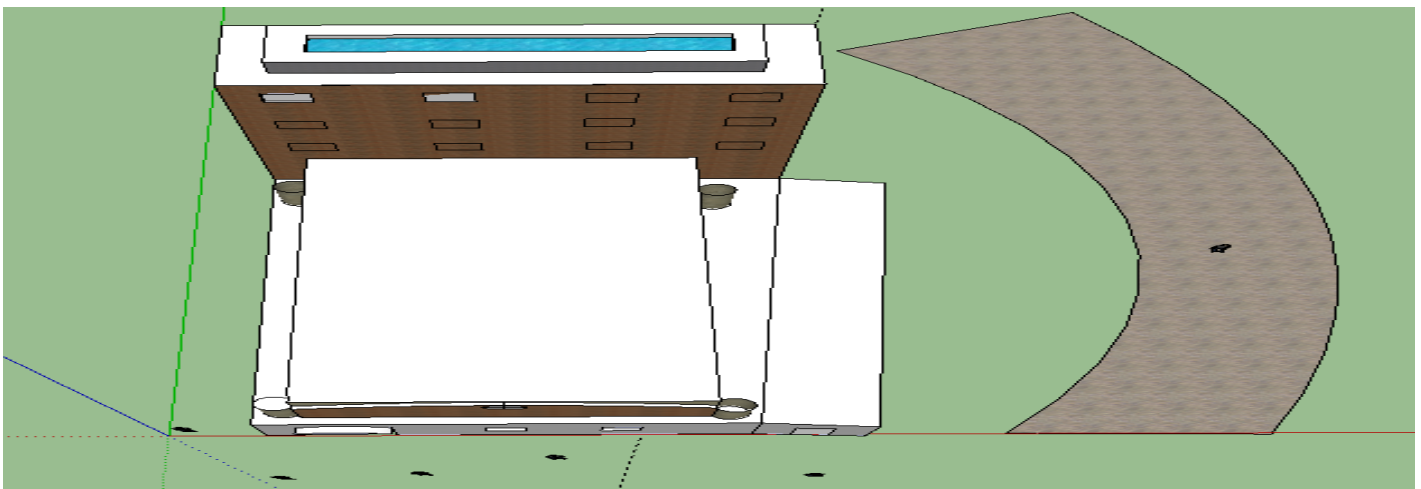
The final step was to determine what kind of investment structure I would employ for the equity portion of the project that would be required. I decided to seek separate investors for the theater and the hotel. Both projects have different risk profiles and different debt obligations and determined it would be best not to co-mingle the equity between the 2 projects. I identified a handful of real-life investors that I consider to be viable options if this development were ever to go live. I chose these investors through personal relationships, but I also had to be sure that they were considered “accredited investors” by the SEC. Soliciting money from investors that make more than \$200,000 a year would provide an exemption from having to register with the SEC. This is known as Rule 501 of Regulation D.^{xlix}

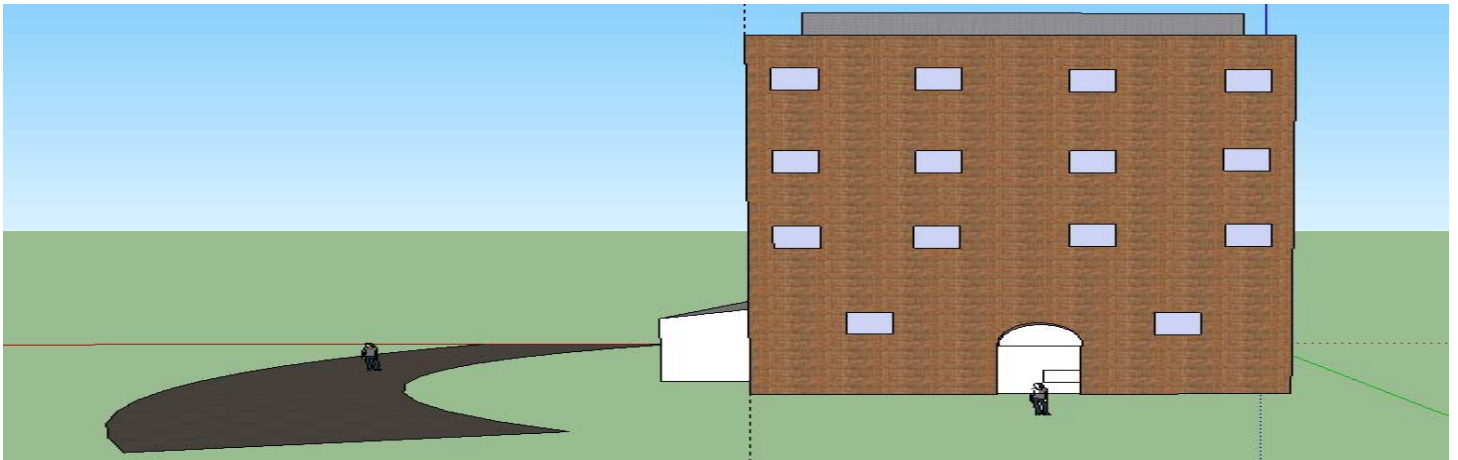
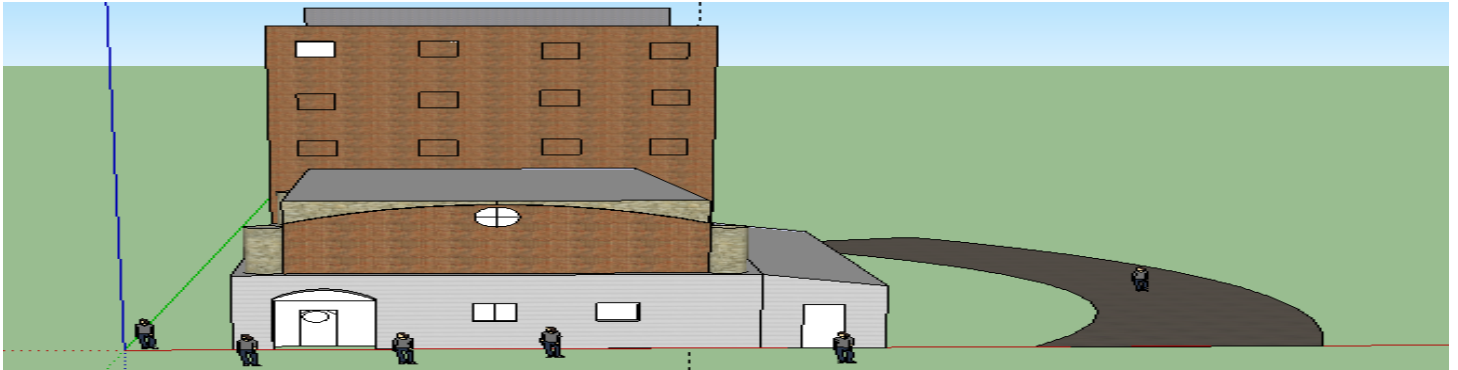
I then looked at the free cash flows compared to the amount of equity needed to complete the development, and came up with a hurdle rate of 4% that seemed both fair and practical given the projected cash flows for each development. Total equity necessary to begin the project would be roughly \$1.9 million, with \$1.35 million required for the hotel and \$556,000 needed for the theater.

Given this determined hurdle rate, each investor was owed a predetermined sum each year before I, as the developer, could participate in the profits from each development. Additionally, I employed a look back provision stating that if in any given year the preferred return was not met for an investor, the shortfall would have to be made up in the next period where there was enough free cash flow to meet the hurdle and also cover any past deficits. However, no interest will be earned on the look back shortfalls. The structure is also fairly equitable in the sense that if in any given period there is not enough free cash flow to meet all investor’s hurdle return, then no single investor would be paid in full for that period. In the event of this occurring, the total free cash flow for that period would be distributed based on the percentage of total equity each investor had contributed. After the hurdle had been met in a given fiscal year, a 70/30 split would then be employed to distribute the remaining cash flow, with 70% of the available money going to investors and 30% to the developer.

Conclusions:

Rendering of final product





What makes this development so attractive is the lack of direct competition in the immediate area for both uses. This, combined with what seems to be a perfect demographic environment in a burgeoning city, indicates a great combination of positive supply and demand side success indicators.

From an operational and financial standpoint, both investments are predicted to be relatively successful. IRRs on both developments will most likely be from the low double digits to the high teens while ROIs will be well above 100% in both cases. The yearly cash flows for each use will be consistent, but not overwhelming. A large amount of the success will be predicated on the profitable sale of both properties.

Some of the key metrics and financial ratios for the developments themselves (not for each investor) are seen below:

-Theater Pre-Tax Leveraged IRR: 18.09%

-Theater Pre-Tax Leveraged ROI: 270.76%

-Theater Pre-Tax Leveraged NPV: \$350,565 (Assuming 10% Discount Rate)

-Hotel Pre-Tax Leveraged IRR: 11.00%

-Hotel Pre-Tax Leveraged ROI: 157.21%

-Hotel Pre-Tax Leveraged NPV: \$102,344 (Assuming 10% Discount Rate)

-Development Pre-Tax Leveraged IRR: 11.73%

-Development Pre-Tax Leveraged ROI: 193.21%

-Development Pre-Tax Leveraged NPV: \$271,124 (Assuming 10% Discount Rate)

However, assumptions used in both scenarios, especially with regard to the theater, were very conservative due to the unique nature of each use in the immediate area. Standard industry assumptions could not be used in either pro-forma because the lack of comparable businesses in Charlottesville. Regardless of how strong a demographics study looks on paper, there is always the small chance that one or both of these concepts could receive an unexpected chilly reception by the local residents.

Some of the conservative assumptions that are likely to improve when the development comes to fruition are seen below:

***-Hotel ADR:** I think the starting point for ADR is probably too low at \$129. The ADR citywide was \$118 in 2007 and this is inclusive of lower end motels like Econo Lodge and Days Inn. Since this hotel will be upscale and therefore more comparable to The Omni and the Boars Head Inn whose ADRs are above \$170, I could have easily began with an ADR near \$140. However, I want to be sure that the boutique concept is embraced before increasing the rate to expected levels.ⁱ*

***-Hotel occupancy:** The occupancy rate in Charlottesville was over 70% in 2007, and I expect the excitement and buzz of The Mall's first boutique hotel to create above average results. Nevertheless I began at 65% before building to the expected occupancy rate to once again be sure that the concept was accepted.ⁱⁱ*

***-Theater capacity:** Despite the fact that weekend capacity at the theater would normally be near 100% based on Alamo employee testimony, I generally kept my attendance assumptions similar to what the current tenant draws at around 65% on the weekends. This could easily improve to 85% or 90%. Additionally, based on the small size of each theater, filling Vinegar Hill to near capacity should not be a difficult task.*

-Refreshment purchase ratio: Although employees and patrons of the Alamo had advised me that almost 100% of customers order food or alcohol when visiting the theater, I conservatively modeled for only 70% of Vinegar Hill patrons to order refreshments.

-Leasing commissions: Normally 2-2.5% of the base rent amount is paid out to a commercial leasing broker when a renewal is achieved. However, to ensure that the tenant stayed on for their 5 year renewal option I doubled the commission paid to the broker to ensure that he made his best effort to retain the tenant.

-Purchase price: The purchase price modeled for the property was also modeled well above the assessed value and capitalization value to bake in some sentimental value to the long-term owner.

The impact of these assumptions improving can be seen in the attached sensitivity analysis.

The use of conservative assumptions and drivers creates a scenario in which there is room for unforeseen negative events to occur such as higher interest rates or additional tenant improvements without rendering the project non-viable. The smaller size of this development will not only prevent it from being cost-prohibitive but will also deter unwanted attention from the local government and contentious neighborhood associations.

I would recommend moving forward by beginning the process of soliciting financing and investor approval before eventually contacting the owner to present a tentative purchase offer contingent on due diligence findings. Complete site plans should be presented to the city zoning commission and architectural review board for final review. Prospective tenants for the theater should be lined up and possible management companies for the hotel should be contacted. In the diligence period a more detailed construction and environmental study can be done before finalizing the purchase.

ⁱ Shwartz, Kenneth. "Charlottesville Urban Design and Affordable Housing." 20 OCT. 2008. 15 DEC 2010.
<<http://www2.iath.virginia.edu/schwartz/vhill/vhill.history.html>>

ⁱⁱ "Best of Cville 2009." 30 DEC 2009. 15 DEC 2010 <<http://www.c-ville.com/index.php?cat=1990608073805434>>

ⁱⁱⁱ "Chowhound: Tips for dining eating, and food shopping in Virginia, West Virginia, Delaware and Maryland."
<<http://chowhound.chow.com/topics/186061>>

^{iv} "Il Cane Pazzo" 07 JUL 2010. DEC 15 2010 <http://www.tripadvisor.com/Restaurant_Review-g57592-d754671-Reviews-Il_Cane_Pazzo-Charlottesville_Virginia.html>

^v Conversation With Reed Broadhead

^{vi} Code Of Ordinances. City Of Charlottesville. Codified Through December 2010. Chapter 34. Article VI DIVISION 1.

^{vii} Code Of Ordinances. City Of Charlottesville. Codified Through December 2010. Chapter 34. Article VI DIVISION 2.

^{viii} Code Of Ordinances. City Of Charlottesville. Codified Through December 2010. Chapter 34. Article VI DIVISION 2.

^{ix} Conversation With Reed Broadhead

^x <http://www.charlottesville.org/index.aspx?page=177>

^{xi} McNair, Dave. "Danielson, Minor break ground on 'Landmark'." 11 MAR 2008. 13 DEC 2010.

<<http://www.readthehook.com/blog/index.php/2008/03/11/danielson-minor-break-ground-on-landmark/>>

^{xii} McNair, Dave. "On 14th Street: Boutique 'Alcove' hotel gets Council Approval." 04 APR 2010. 15 DEC 2010.

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^{xv} McNeill, Brian. "UVA Board mulls increased tuition, enrollment," 11 JUL 2010. 24 DEC 2010.

<http://www2.dailyprogress.com/news/cdp-news-local/2010/jul/11/uva_board_mulls_increased_tuition_enrollment-ar-318922/>

^{xvi} Stockhausen, Rob. *CB RICHARD ELLIS: OLD TRAIL CENTER ANALYSIS*. Charlottesville, VA. 11 SEPT 2007. 14 NOV 2010.

^{xviii} VCU Center for Public Policy. "High-Technology Industry for the Charlottesville MSA." 1 JUN 2009. 13 DEC 2010. Page 10

^{xix} Speizer, Irwin. "QIMs Jaffray Woodruff: The Monk in Managed Futures." 18 DEC 2009. 12 DEC 2010. <<http://www.absolutereturn-alpha.com/Article/2361672/QIMs-Jaffray-Woodruff-The-monk-in-managed-futures.html>>

^{xx} McKenzie, Brian. "City Unemployment Rate Jumps To Two Decade High." 19 MAR 2010. 11 DEC 2010.

<http://www2.dailyprogress.com/news/cdp-news-local/2010/mar/19/city_unemployment_rate_jumps_to_2-decade_high-ar-75983/>

^{xxi} Stockhausen, Rob. *CB RICHARD ELLIS: OLD TRAIL CENTER ANALYSIS*. Charlottesville, VA. 11 SEPT 2007. 14 NOV 2010.

^{xxii} <<http://www.census.gov/popest/metro/CBSA-est2009-annual.html>>

^{xxiii} <http://www.charlottesville.org/Index.aspx?page=576>

^{xxiv} <http://www.charlottesville.org/Index.aspx?page=576>

^{xxv} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 16.

^{xxvi} Stockhausen, Rob. *CB RICHARD ELLIS: OLD TRAIL CENTER ANALYSIS*. Charlottesville, VA. 11 SEPT 2007. 14 NOV 2010.

^{xxvii} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 43.

^{xxviii} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 44.

^{xxix} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 18.

^{xxx} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 22 and 21.

^{xxxi} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 24.

^{xxxii} "ERA No. 17463-Marth Jefferson Hospital Site Demand Analysis." 18 JUL 2010. 11 DEC 2010. Page 25 and 26.

^{xxxiii} Fitzgerald, Brendon. "Could Tax Rebate Seal Waterhouse Deal?" 21 JAN 2011. 28 JAN 2011. <http://www.c-ville.com/index.php?cat=141404064435450&ShowArticle_ID=11802308103862667>

^{xxxiv} <http://www.localist.com/baltimore/charlesth theatre>

^{xxxv} "Best of Cville 2009." 30 DEC 2009. 15 DEC 2010 <<http://www.c-ville.com/index.php?cat=1990608073805434>>

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- xlvi Provided by John Gogos at Papadopoulos Properties
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		Individual Tenant Cash Flow & Summary New Vinegar Hill											
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
		1/1/2012	2/1/2012	3/1/2012	4/1/2012	5/1/2012	6/1/2012	7/1/2012	8/1/2012	9/1/2012	10/1/2012	11/1/2012	
For the Years Ending													
Tenant Potential Gross Revenue													
Base Rental Revenue	\$56,615	\$58,030	\$59,481	\$60,968	\$62,492	\$64,055	\$65,656	\$67,297	\$68,980	\$70,704	\$72,472		
Absorption & Turnover Vacancy	0	0	0	0	(24,036)	0	0	0	0	0	0		
Base Rent Abatements	0	0	0	0	0	0	0	0	0	0	0		
Property Sale	0	0	0	0	0	0	0	0	0	2,413,699	0		
Scheduled Base Rental Revenue	56,615	58,030	59,481	60,968	38,457	64,055	65,656	67,297	68,980	70,704	72,472		
Miscellaneous Rental Revenue	0	0	0	0	0	0	0	0	0	0	0		
Parking Revenue	0	0	0	0	0	0	0	0	0	0	0		
Retail Sales Percent Revenue	55,435	56,821	58,242	59,698	61,190	62,720	64,288	65,895	67,543	69,231	70,962		
Expense Reimbursement	30,485	31,247	32,028	32,829	33,650	34,491	35,353	36,237	37,143	38,072	39,023		
Non-Refundable Deposits	0	0	0	0	0	0	0	0	0	0	0		
Earned Interest	0	0	0	0	0	0	0	0	0	0	0		
Developer Fee	0	0	0	0	0	0	0	0	0	0	0		
Total Potential Gross Revenue	142,535	146,099	149,751	153,495	133,297	161,266	165,297	169,430	173,666	178,007	182,457		
Leasing & Capital Costs													
Tenant Improvements	0	0	0	0	26,800	0	0	0	0	0	0		
Leasing Commissions	0	0	0	0	23,951	0	0	0	0	0	0		
Security Deposits	0	0	0	0	0	0	0	0	0	0	0		
Investment of Capital	0	0	0	0	0	0	0	0	0	0	0		
Deposit Refund	0	0	0	0	0	0	0	0	0	0	0		
ABC Licenses	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430		
Total Leasing & Capital Costs	1,430	1,430	1,430	1,430	52,181	1,430	1,430	1,430	1,430	1,430	1,430		
Net Operating Income	\$141,105	\$144,669	\$148,321	\$152,065	\$81,116	\$159,836	\$163,867	\$168,000	\$172,236	\$176,577	\$181,027		
Cap Ex Reserves	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100	\$20,100		
Cash Flow For Debt Service	\$121,005	\$124,569	\$128,221	\$131,965	\$61,016	\$139,736	\$143,767	\$147,900	\$152,136	\$156,477	\$160,927		
Debt													
Principle	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Interest	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206		
Total Debt Service	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206		
Before Tax Cash Flow	\$62,800	\$66,363	\$70,016	\$73,760	\$2,810	\$81,530	\$85,562	\$89,694	\$93,930	\$98,272	\$102,722		
Taxable Income													
LESS: Interest	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206	\$58,206		
Depreciation	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649	\$24,649		
Taxable Income	\$58,251	\$61,815	\$65,467	\$69,211	-\$1,738	\$76,982	\$81,013	\$85,146	\$89,381	\$93,723	\$98,173		
Tax	\$20,388	\$21,635	\$22,913	\$24,224	\$0	\$26,944	\$28,355	\$29,801	\$31,283	\$32,803	\$34,361		
After Tax Cash Flow	\$42,412	\$44,728	\$47,102	\$49,536	\$2,810	\$54,587	\$57,207	\$59,893	\$62,647	\$65,469	\$68,361		
Debt Coverage Ratio	2.42	2.49	2.55	2.61	1.39	2.75	2.82	2.89	2.96	3.03	3.11		
Equity Out	-\$556,236												
Pre Tax Levered ROI	270.76%												
Pre Tax Levered IRR	18.09%												
Pre Tax Levered NPV	\$350,565.14												
After Tax Levered ROI	191.91%												
After Tax Levered IRR	13.81%												

HOTEL VALUATION												
	1/1/2012		2/1/2012	3/1/2012	4/1/2012	5/1/2012	6/1/2012	7/1/2012	8/1/2012	9/1/2012	10/1/2012	11/1/2012
CASH FLOW PROJECTION (100% Owned)	Year 1	% Gross	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Occupancy %	65.0%		70.0%	73.0%	75.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Average Daily Rate (ADR)	129.0		138.03	144.93	149.28	153.76	158.37	163.12	168.02	173.06	178.25	183.59
Repar	83.9		86.6	105.8	112.0	116.9	120.4	124.0	127.7	131.5	135.5	139.6
Rooms	30		30	30	30	30	30	30	30	30	30	30
Total Rooms Available (Yr)	10,950		10,950	10,950	10,950	10,950	10,950	10,950	10,950	10,950	10,950	10,950
Total Rooms Sold (Yr)	7,118		7,665	7,994	8,213	8,322	8,322	8,322	8,322	8,322	8,322	8,322
Revenue:												
Rooms	65.32%	918,157.7	74.3%	1,058,000.9	1,158,509.9	1,225,957.4	1,279,572.6	1,317,959.8	1,357,498.6	1,398,223.6	1,440,170.3	1,483,375.4
Food & Beverage	30.00%	275,447.3	22.3%	317,400.0	347,553.0	367,787.2	383,871.8	419,467.1	432,051.1	442,051.1	454,012.6	465,012.6
Telephone	1.50%	13,772.4	1.1%	15,870.0	17,377.6	18,389.4	19,153.6	20,362.5	20,932.4	21,602.6	22,288.8	22,981.1
Other	3.18%	29,197.4	2.4%	33,644.4	36,840.6	38,985.4	40,690.4	41,911.1	43,168.5	44,463.5	45,797.4	47,171.3
Sale Of Property											5,490,414.6	
Total Revenue	1,236,574.5	100.0%	1,424,914.3	1,560,281.2	1,651,119.5	1,723,328.4	1,775,628.3	1,828,279.1	1,883,127.5	1,939,621.3	1,997,810.0	2,057,744.3
Departmental Expenses:												
Rooms	321,355.1	35.0%	370,300.0	405,478.5	429,085.1	447,850.4	461,285.9	475,124.5	489,378.3	504,059.6	519,181.4	534,756.8
Food & Beverage	220,793.8	80.0%	253,920.0	278,042.4	294,229.8	307,409.7	316,310.4	325,790.7	335,573.7	345,640.9	356,010.4	366,690.4
Telephone	10,329.3	75.0%	11,962.3	13,032.2	13,759.2	14,368.2	14,872.9	15,376.9	15,879.9	16,382.9	16,886.9	17,390.9
Other	16,642.5	57.0%	19,177.3	20,999.2	22,221.7	23,193.5	23,889.3	24,600.6	25,344.2	26,104.5	26,887.7	27,694.3
Total Departmental Expenses	568,684.7	46.0%	655,299.5	717,553.3	759,328.6	792,536.6	816,312.7	840,802.1	866,026.1	892,006.1	918,767.1	946,330.1
Gross Operating Income	667,889.8	54.0%	769,614.6	842,727.9	891,790.9	930,791.9	958,715.6	987,477.1	1,017,101.4	1,047,614.4	1,079,042.9	1,111,414.2
Undistributed Operating Expenses:												
General & Administrative	98,920.0	8.0%	113,993.1	124,822.5	132,089.6	137,886.3	142,002.3	146,262.3	150,650.2	155,169.7	159,824.8	164,619.5
Management Fee	61,828.7	5.0%	71,245.7	78,814.1	82,556.0	86,168.4	88,751.4	91,414.0	94,168.1	96,981.1	99,850.5	102,887.2
Marketing	111,291.7	9.0%	113,993.1	109,219.7	99,067.2	103,399.7	106,501.7	109,690.0	112,897.7	116,377.3	119,868.6	123,464.7
Repairs & Maintenance	61,828.7	5.0%	68,494.9	101,418.3	115,578.4	120,633.0	124,252.0	127,979.5	131,818.9	135,773.5	139,846.7	143,042.1
Energy	37,097.2	-	42,747.4	46,800.4	49,533.6	51,699.9	53,250.8	54,848.4	56,483.8	58,168.6	59,934.3	61,723.3
Total Undistributed Operating Expenses	370,972.4	30.0%	427,474.3	460,280.3	478,247.2	499,765.2	514,758.2	530,201.0	546,107.0	562,490.2	579,364.8	596,745.8
Fixed Op. Exp less MMT Fee	308,143.6	-	356,228.6	382,269.8	396,268.7	413,598.8	426,006.8	438,787.0	451,950.6	465,509.1	479,474.4	493,856.6
Real Estate Taxes	30,914.4	2.5%	35,622.9	39,007.0	49,533.6	51,699.9	62,126.0	63,989.8	65,909.5	67,886.7	69,923.2	72,021.0
Insurance	18,548.6	1.5%	21,373.7	23,404.2	24,766.8	25,849.9	26,625.4	27,424.2	28,246.9	29,094.3	29,967.1	30,860.2
Other	-	0.0%	-	-	-	-	-	-	-	-	-	-
Total Fixed Expenses	49,463.0	4.0%	56,996.6	62,411.2	74,300.4	77,549.8	88,751.4	91,414.0	94,168.4	96,981.1	99,850.5	102,887.2
Net Operating Income (EBI)	247,454.3	-	285,143.7	330,653.7	338,665.8	353,476.8	355,206.0	365,862.2	376,838.0	388,143.2	399,787.5	411,781.1
Net Cash Flow	247,454.5	20.0%	285,143.7	330,653.7	338,665.8	353,476.8	355,206.0	365,862.2	376,838.0	388,143.2	399,787.5	411,781.1
FF&E Reserves	74,194.6	6.0%	78,014.1	66,044.8	68,933.1	71,001.1	73,131.2	75,325.1	77,584.9	79,912.4	82,300.8	84,700.3
Cash Flow For Debt Service	173,260.0	-	206,773.4	242,019.7	272,621.1	284,543.7	284,204.9	292,731.0	301,512.9	310,558.3	319,875.1	329,471.8
Debt												
Principle	-	-	-	-	-	-	-	-	-	-	-	-
Interest	186,059.4	-	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4
Total Debt Service	186,059.4	-	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4
Before Tax Cash Flow	(127,999.4)	-	20,714.0	55,960.3	86,561.7	98,484.3	98,145.5	106,671.6	115,453.6	124,499.0	133,815.7	143,412.0
Taxable Income	186,059.4	-	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4	186,059.4
LESS: Interest	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0	62,500.0
Taxable Income	(1,104.99)	-	36,564.4	71,474.4	90,106.5	104,917.5	108,468.6	117,302.4	126,278.7	135,563.8	151,228.9	163,221.9
(386.7)	-	-	12,804.5	26,010.0	31,537.3	37,526.3	36,721.1	44,807.8	48,854.3	52,928.9	57,077.6	61,276.6
After Tax Cash Flow	(12,412.7)	-	7,909.5	33,464.4	58,569.4	61,763.2	60,819.2	65,615.7	70,556.6	75,644.6	80,885.9	86,264.4
Debt Coverage Ratio	1.33	-	1.53	1.72	1.82	1.90	1.91	1.97	2.03	2.09	2.15	2.21

	Growth Rate/Starting Assumptions								
Occupancy %	5.0%	3.0%	2.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average Daily Rate (ADR)	7.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Marketing	6.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Repairs & Maintenance	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Real Estate Taxes	2.5%	2.5%	3.0%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%
FF&E Reserves	5.5%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Starting Occupancy	65.0%								
Starting ADR	129	Debt							
Rooms	129	Loan	\$2,531,420						
Discount Rate	6.0%	Equity	\$1,349,863	\$3,700,000 Property Cost					
Commissionable Fee	6.0%	Rate	2.30%	\$2,531,420 Loan					
	10.0%	Term Cap	7.50%	\$1,349,863 Equity					
				\$2,437,500 Depreciable Basis					

	Construction Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Financial Ratios												
Pre Tax Levered ROI	157.21%	\$1,349,063	\$0	\$20,714	\$55,960	\$86,562	\$98,484	\$98,145	\$106,872	\$115,454	\$124,499	\$2,763,385
Pre Tax Levered IRR	11.00%	\$1,349,063	\$0	\$7,910	\$30,944	\$55,624	\$61,763	\$60,819	\$65,616	\$70,556	\$75,645	\$2,281,893
Pre Tax Levered NPV	\$102,344.13											
After Tax Levered ROI	99.41%											
After Tax Levered IRR	7.69%											
								Pre Tax and After Tax Flow From Sale				
								Price Appreciation		1,740,414.6		
								Accumulated Depreciation		750,000.0		

Pre Tax and After Tax Flow From Sale			
Price Appreciation		1,740,414.6	
Accumulated Depreciation		750,000.0	
Total Gain		2,490,414.6	
Tax on price appreciation		361,062.2	
Tax on accumulated depreciation		187,500.0	
Total capital gain tax		448,562.2	
Sale Price			5,490,414.6
LESS: Mortgage Balance			2,511,419.9
Commissions			329,424.8
Before Tax Cash Flow			2,629,569.8
Taxes in Year of Sale			
Sale Price		5,490,414.6	
Original Cost Basis		3,750,000.0	
Accumulated Depreciation		750,000.0	
Adjusted Basis			3,000,000.0
Capital Gain		2,490,414.6	
Tax on Gain			448,562.2
After Tax Cash Flow	*****	*****	2,181,007.6

New Dinner Theater Assumptions

New Vinegar Hill Assumptions									
Total Sq Ft			Menu			Space			
Old Camino	1,100		Avg Beer-Individual	\$4.50		Theaters		2	
Old Vinegar Hill	3,100		Avg Beer-Bucket	\$22.00		Seats Per/Theater		65	
Addition	2,500		Avg Wine-Glass	\$6.00		Total Seats		130	
Total	6,700		Avg Wine-Bottle	\$23.00		Capacity Week		50%	
			Avg Appetizer	\$6.99		Capacity Weekends		65%	
Bar Area			Avg Salad	\$9.49					
Sq Ft	750		Avg Sandwich/Burger	\$9.99					
			Avg Entrée/Pizza	\$10.49					
Bar Area Revenue			Avg Desert	\$5.99					
AVG Revenue Per Day	330		Soda/Tea	\$3.99					
AVG Revenue Per Week	1,980		Popcorn	\$3.99					
Avg Revenue Per Year	100,980					Loan			
			Refreshments Ratios			Take Out Loan	\$	931,289.04	
			People Getting Refreshments	70%		Prime		3.25%	
			Avg Meal Spend (for those who eat)	\$12.00		Spread		3.00%	
			Avg Beverage Spend (for those who drink)	\$7.00		Term		10 Years	
						Deprciable Value	\$	961,300.00	
						Depreciation Scehdule		39	
						Tax Rate		35%	
						Going In Cap		9.00%	
						Terminal Cap		7.50%	
						Original Cost Basis	\$	1,357,500.00	
						Reserves			
						Cap Ex	\$	3.00	
						ABC Licenses	\$	1,430.00	
						Discount Rate		10.00%	
Ticket Prices			Rent						
Matinee	\$6.75		Base Rent (Per Sq Ft)	13.00					
Premium Time	\$9.25		Total Sq Ft Rent	\$ 87,100.00					
% Tickets Prem	24%		% Rent	5%					
% Tickets Mat	76%		Escalation	3%					
			Natural Break Point	\$ 1,742,000.00					
			Term	5	W/Option				
			Leasing Commissions (% of renewal)	6%					
			TI	4.0					
			Vacancy In TI Year	25%					
			CAM and INSURANCE (% or base rent)	35%					
			Rent No Expense	8.45					
			Expenses	4.55					

Theater Addition CapEx Schedule

Soft Cost Ratios	
Architect	10.000%
GC	12.000%
Engineer	8.000%
Sq Ft Cost Breakdown	
Sq Ft Under Construction	2,500
Price Per Sq Ft	95
Final Construction Cost Breakdown	
Lower Level Construction Cost	37,500
Total Hard Construction Costs	237,500
Architect Costs	27,500
General Contractor Costs	33,000
Engineer Costs	22,000
Total	357,500

THEATER SOURCES AND USES

Sources And Uses

<u>Costs</u>		
Building And Land	1,000,000	
Site Work	357,500	
Interest Reserve	48,914	
Loan/Closing Costs	13,236	
Developer Fee	67,875	
Total Project Costs	1,487,525	
Perm Loan Request	931,289	
Monthly Draw	-	
Total Draw Accumulation	-	
<u>Sources and Uses</u>		
<u>Uses</u>		
Project Budget	1,487,525	
<u>Sources</u>		
Developer Equity-Dev Fee	67,875	
Developer Equity-Cash	488,361	
Aggregate Dev Equity	556,236	
Mezzanine Debt	-	
Construction Loan and Max LTC	931,289	62.61%
Payment	58,206	

Hotel CapEx Schedule

Rooms	30		
Cost Per Room	\$ 125,000		
Total Cost	\$ 3,750,000		
	Ratios	Cost	Cost/Room
General & Administrative			
Legal Fees	13.6%	\$37,236.5	\$1,241.22
Development Management Fee	52.6%	\$144,017.7	\$4,800.59
Insurance	33.8%	\$92,543.7	\$3,084.79
Total General & Administrative	7.3%	\$273,798.0	\$9,126.60
Design & Consultants			
Architectural Design	50.8%	\$111,303.8	\$3,710.13
Interior Design	25.4%	\$55,651.9	\$1,855.06
Engineering Design & Consulting	23.7%	\$51,941.8	\$1,731.39
Total Design & Consultants	5.8%	\$218,897.4	\$7,296.58
Development Charges & Municipal Costs			
Development Charges	78.4%	\$296,810.0	\$9,893.67
Building Permits	19.6%	\$74,202.5	\$2,473.42
Municipal Costs	2.0%	\$7,420.3	\$247.34
Total Development & Municipal Costs	10.1%	\$378,432.8	\$12,614.43
Hard Construction Costs			
Div 1 - General Costs	24.9%	\$716,551.2	\$23,885.04
Div 2 - Metals	8.0%	\$230,885.5	\$7,696.18
Div 3 - Carpentry & Millwork	11.9%	\$341,722.1	\$11,390.74
Div 4 - Finishing	16.8%	\$484,888.4	\$16,162.95
Div 5 - Specialties	8.0%	\$230,309.7	\$7,676.99
Div 6 - Equipment	11.3%	\$324,995.8	\$10,833.19
Div 7 - Furnishings	15.3%	\$439,056.7	\$14,635.22
Construction Contingency	3.8%	\$110,462.3	\$3,682.08
Total Hard Costs	76.8%	\$2,878,871.8	\$95,962.39
Total		\$3,750,000.0	\$125,000.00

HOTEL SOURCES AND USES

Sources And Uses

<u>Costs</u>		
Land	-	
Site Work	3,750,000	
Interest Reserve	93,920	
Loan/Closing Costs	36,563	
Developer Fee	-	
Total Project Costs	3,880,482	
 Perm Loan Request	 2,531,420	
Monthly Draw	-	
Total Draw Accumulation	-	
 <u>Sources and Uses</u>		
<u>Uses</u>		
Project Budget	3,880,482	
 <u>Sources</u>		
Developer Equity-Dev Fee	-	
Developer Equity-Cash	1,349,063	
Aggregate Dev Equity	1,349,063	
Mezzanine Debt	-	
Construction Loan and Max LTC	2,531,420	65.23%
Payment	186,059	

ASSUMPTION SENSITIVITY ANALYSIS

Single Variable Sensitivity Analysis

Hotel ADR SENSITIVITY		
ADR	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case ADR	11.00%	102,344
140 ADR	13.38%	368,451
150 ADR	15.43%	619,982
175 ADR	19.93%	1,248,811

Hotel Occupancy Rate SENSITIVITY		
Occupancy Rate	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case Occupancy	11.00%	102,344
70% Occupancy Rate	12.87%	308,303
75% Occupancy Rate	14.69%	524,839
80% Occupancy Rate	16.39%	741,376

Theater Capacity SENSITIVITY		
Theater Capacity	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case Capacity	18.09%	350,565
70% Capacity	19.45%	419,016
75% Capacity	20.77%	487,467
85% Capacity	23.29%	624,369

Theater Refreshment Purchase SENSITIVITY		
Refreshment Purchase Ratio	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case Refreshment Purchase	18.09%	350,565
75% Ratio	19.49%	420,575
80% Ratio	20.83%	490,585
90% Ratio	23.40%	630,605

Multi-Variable Sensitivity Analysis

Hotel ADR/Occupancy Rate SENSITIVITY		
ADR/Occupancy Rate	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case	11.00%	102,344
140/70%	15.31%	603,452
150/75%	19.12%	1,123,555
175/80%	25.35%	2,130,064

Theater Capacity/Refreshment Purchase SENSITIVITY		
Capacity/Refreshment Ratio	Pre Tax Levered IRR	Pre Tax Levered NPV
Base Case	18.09%	350,565
70%/75%	20.86%	491,990
75%/80%	23.55%	639,341
85%/90%	28.84%	951,824

INVESTOR DISTRIBUTION SCHEDULE

Investor Distribution Schedule										
Before Tax Cash Flow										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Development										
New Vinegar Hill	62,800	66,363	70,016	73,760	2,810	81,530	85,562	89,694	93,930	1,435,860
Hotel	-	20,714	55,960	86,562	98,484	98,145	106,672	115,454	124,499	2,763,385
Total Cash Available For Distribution	62,800	87,077	125,976	160,321	101,295	179,676	192,234	205,148	218,429	4,199,245
Cash Flow Distributions										
<i>Sherri King</i>	25,098	26,340	27,613	28,918	1,399	34,418	33,031	34,471	35,947	503,613
<i>Parker Wright</i>	8,438	8,856	9,283	9,722	470	11,571	11,105	11,589	12,085	169,314
<i>Raplh Main</i>	8,438	8,856	9,283	9,722	470	11,571	11,105	11,589	12,085	169,314
<i>Mike Right</i>	8,438	8,856	9,283	9,722	470	11,571	11,105	11,589	12,085	169,314
<i>Coran Capshaw</i>	-	10,734	28,998	39,787	44,112	43,989	47,082	50,267	53,548	1,010,748
<i>Morgan Wright</i>	-	4,990	13,481	18,497	20,508	20,451	21,889	23,370	24,895	469,905
<i>SDH Development</i>	-	4,990	13,481	18,497	20,508	20,451	21,889	23,370	24,895	469,905
Total Cash Flow Distributed To Investors	50,412	73,621	111,424	134,866	87,938	154,023	157,205	166,245	175,541	2,962,113
Developer Cash Flow										
New Vinegar Hill	12,388	13,457	14,552	15,675	-	12,397	19,216	20,456	21,727	424,306
Hotel	-	-	-	9,780	13,357	13,255	15,813	18,447	21,161	812,827
Total Developer Cash Flow	12,388	13,457	14,552	25,455	13,357	25,652	35,029	38,903	42,888	1,237,132
Investor Contributions										
New Vinegar Hill	Amount	Preferred Return (LB)	% of Equity	% Of PF R	Split					
<i>Sherri King</i>	267,699	4%	49.8%	49.8%	70.00%					
<i>Parker Wright</i>	90,000	4%	16.7%	16.7%	30.00%					
<i>Raplh Main</i>	90,000	4%	16.7%	16.7%						
<i>Mike Wright</i>	90,000	4%	16.7%	16.7%						
Hotel	Amount	Preferred Return (LB)	% of Equity	% Of PF R	Split					
<i>Coran Capshaw</i>	699,063	4%	51.8%	51.8%	70.00%					
<i>Morgan Wright</i>	325,000	4%	24.1%	24.1%	30.00%					
<i>SDH Development</i>	325,000	4%	24.1%	24.1%						

NEW VINEGAR HILL

Summary Revenue Schedule Year 1

Premium Ticket	76%	\$9.25
Matinee Ticket	24%	\$6.75

Seats	130
Sq Ft	6,700
Days Per Week	6
Weeks Per Year	51
Total Days	306

Ordinary Income/Expense			
Income		Customers/Week	2,457
Sales			
	Meal		\$1,052,578.80
	Drink		\$614,004.30
	Ticketsales		\$1,083,146.11
Bar Area			\$100,980.00
Total Sales Yr 1			\$2,850,709.21

Vinegar Hill Theater

Summary Proforma

Adult Ticket	85%	\$8.00
Child Ticket	15%	\$5.00

Seats	100
Sq Ft	3,100
Days Per Week	6
Weeks Per Year	51
Total Days	306

Ordinary Income/Expense		BreakEven (Low)	Expected	High
Income	Customers/Week	660	790	1040
Sales				
	Refreshments	\$117,810.00	\$141,015.00	\$185,640.00
	Ticketsales	\$254,133.00	\$304,189.50	\$400,452.00
Total Sales		\$371,943.00	\$445,204.50	\$586,092.00
Purchases				
	Popcorn	\$6,126.12	\$7,332.78	\$9,653.28
	Candy	\$2,650.73	\$3,172.84	\$4,176.90
	Soda	\$6,126.12	\$7,332.78	\$9,653.28
	Tea	\$883.58	\$1,057.61	\$1,392.30
	Movie Rights	\$127,066.50	\$152,094.75	\$200,226.00
Total Purchases		\$142,853.04	\$170,990.76	\$225,101.76
Gross Profit		\$229,089.96	\$274,213.74	\$360,990.24
Expenses				
	Operatating Expense	\$63,533.25	\$76,047.38	\$100,113.00
	Utilities	\$6,000.00	\$6,000.00	\$6,000.00
	Labor	\$107,865.00	\$107,865.00	\$107,865.00
	Marketing	\$4,000.00	\$4,000.00	\$4,000.00
	Implied Rent (Triple net)	\$37,194.30	\$44,520.45	\$58,609.20
Total Expenses		\$218,592.55	\$238,432.83	\$276,587.20
Net Ordinary Income		\$10,497.41	\$35,780.92	\$84,403.04

Camino

Summary Proforma

Adult Dinner	85%	\$25.00
Child Dinner	15%	\$13.00
(w/o drinks and net of tax and tips)		

Seats	29
Sq Ft	1,100
Days Per Week	5
Weeks Per Year	51
Total Nights	255

Ordinary Income/Expense		BreakEven (Low)	Expected	High
Income	Customers/Day	29	35	44
Sales	Table Turns	1	1.2	1.5
	Food	\$171,564.00	\$205,876.80	\$257,346.00
	Liquor	\$17,254.80	\$20,705.77	\$25,882.21
	Beer	\$8,047.76	\$9,657.31	\$12,071.63
	Wine	\$40,238.70	\$48,286.44	\$60,358.04
	Soda/Tea	\$3,772.41	\$4,526.89	\$5,658.61

Total Sales	\$240,877.66	\$289,053.20	\$361,316.50
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Purchases				
	Food	\$37,744.03	\$45,292.84	\$56,616.05
	Liquor	\$2,243.09	\$2,691.71	\$3,364.63
	Beer	\$885.28	\$1,062.34	\$1,327.92
	Wine	\$8,852.50	\$10,623.00	\$13,278.75
	Soda/Tea	\$113.15	\$135.79	\$169.73

Total Purchases	\$49,838.06	\$59,805.67	\$74,757.08
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Gross Profit	\$191,039.61	\$229,247.53	\$286,559.41
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Expenses						
Admin	\$	14,300.00	\$	16,016.00	\$	17,937.92
Opertating Expense	\$	9,900.00	\$	9,900.00	\$	9,900.00
Utilities	\$	1,650.00	\$	1,650.00	\$	1,650.00
Labor	\$	125,000.00	\$	150,000.00	\$	180,000.00
Marketing	\$	3,300.00	\$	3,300.00	\$	3,300.00
Implied Rent (Triple net)		\$14,452.66		\$17,343.19		\$21,678.99

Total Expenses	\$	168,602.66	\$	198,209.19	\$	234,466.91
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Net Ordinary Income	\$22,436.95	\$31,038.34	\$52,092.50
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