

Memorandum

To: Mayor and Council
From: Tom Baker, Town Administrator
Date: May 3, 2016
Re: Update: Kuersten RFCP

Purpose: The purpose of this memorandum is to briefly update Council on responses to the Kuersten RFCP. On May 17th or one of Council's June meetings (depending on the timing of the composition of Council), staff will discuss where we go from here. As you know, Council has until early August to decide a course of action. In early August an additional \$15,000 will come due on the contract unless the Council notifies the Kuersten's otherwise.

RFCP Proposal: Attached to this memorandum is the proposal submitted by R&D Development (Don Ensign and Robert Gibson). This proposal assumes that the Council will keep the property under contract and work with R&D Development (at a reduced consulting rate) to undertake Programming and Planning of the site. The proposal identified three specific real-estate markets for New Castle: Affordable Housing, Retirement Accommodations, and Live-Work Dwellings to begin and states that there may be other as yet unidentified marketable uses for the site. The result of the Programming and Planning phase is a development program and plan, preliminary phasing, financial summary, development agreement outline, and subdivision/sketch plan approval.

Once the Planning and Programming phase is complete we would enter the Development phase and determine if there is a basis for Public/Private Partnership or some other development technique. Please see the proposal for an explanation of how they envision work in this phase.

The final phase is Management/Maintenance Operations, which takes us through buildout, see proposal.

Discussion: R&D Development submitted the only proposal. Many of the Senior Care developers that were sent RFCP's sent back responses that they would review the proposals and they followed-up with emails that said thank you but not at this time. The exception was Hilltop of Grand Junction. Hilltop is a 60 year old company that has evolved its scope of services to include many aspects of senior care and senior living www.htop.org. At the pre-proposal meeting Mr. Will Hays, Hilltop COO and I discussed Council's goals and toured the Kuersten property. In conversations with Mr. Hays we discussed the "downsize home/patio home" idea and talked about Hilltop's recent look at a "cottage" model, which is a patio home with grounds and home maintenance, weekly housekeeping, and other services available, if needed. While Hilltop did not submit a proposal, it appears that they see the beginnings of a market for their cottage model.

Next Step: As soon as Council is fully composed, staff would like a work session (perhaps Executive Session, as well) to determine what our next steps will be. Between now and that meeting I will meet with Jeff Simonson, David McConaughy, John Wenzel and Lyle Layton to develop alternatives for Council to consider.

TOWN OF NEW CASTLE - CONCEPTUAL PROPOSAL FOR A PUBLIC/PRIVATE PARTNERSHIP (PPP)

FROM R&D DEVELOPMENT - Don Ensign and Robert Gibson

Thank you for the invitation to submit this proposal.

We are thoroughly familiar with the property and the geographic, political and social circumstances of the Town and the region. We have reviewed the “Request for Conceptual Proposal” and understand the town’s need to clarify the development potential for the property and to define a path toward optimizing the community benefits attendant to it. We have also spent the past year dissecting the real-estate market for all types of development in New Castle as the basis for our multi-use project on the southern parcels of Lakota Canyon Ranch. Finally, we agree with the Council’s intent to “create family supporting jobs” as the overriding goal for development of the property.

Our market research indicates that a healthy economic future for the community must be rooted in affordability as there is no other apparent market niche available to the Town as the foundation for a sustainable and viable economy. Other regional communities are simply better equipped to serve high end residents, tourists, shoppers, recreationists, industry, etc. New Castle has a significant competitive advantage in the affordable niche due to very low land price, proximate construction trades, immediate rail access, an accommodating growth posture and greatly improved access and commute times with completion of the Glenwood Bridge. Our research indicates that two bedroom dwellings priced above \$300,000 and rent above \$1300 per month is not affordable for the vast majority of valley employees. These prices are achievable on this property which will allow New Castle to capitalize on its unique position in the region.

We have identified three specific real-estate markets that are currently underserved in the region and well suited to the site. The reason for lack of availability of these products is price; land and development costs.

1. Affordable housing (AF)

The market for AF is obvious as there is currently none available at or below the AH price threshold defined above. Building within that price range will require higher density multi-family configuration.

2. Retirement Accommodations

Your market analysis establishes the demand and magnitude of this market. The building requirements for assisted living and memory assisted living are very different than independent living, the former sensibly housed in one building and the latter housed in separate facilities. At the density required for affordability, these facilities would occupy from 5 to 7 acres. The retirement uses may be concentrated in a compound separated from the remainder of project with its own private outdoor living area. However, the occupants should not be isolated from the remainder of neighborhood residents. This could be accomplished by organizing all components of the project around a central open space and connected by a common circulation system – streets and walkways.

Older people overwhelmingly prefer being part of and engaged in the local neighborhood and the community at large – the antithesis of a retirement ghetto. The needs of retirees and other residents are much the same, the primary distinction being heightened security for seniors. This can be provided via the location of buildings, securing parking-interior connections and greater sound attenuation.

2. Live – Work Dwellings

Trades people, artists and other small businesses that do not require commercial frontage are the primary audience for this mix of uses. Convention dictates separation of these uses. However, there are several live/work examples in the RF Valley, all of which are sold out and/or 100% occupied. While these existing projects eliminate resident commute hassle, they are isolated – none are part of an organized residential community. The property offers the opportunity to create much more livable and family friendly quarters for these folks while adding to the neighborhood's vitality. This can be accomplished by accessing work spaces and parking from building rears and orienting residences to the fronts facing a street and/or open space. Separating these seemingly conflicting uses can be achieved through careful planning and design effectively creating two very different environments with buildings.

There may be other as yet unidentified marketable uses for the site. If so they may be accommodated if compatible with the uses outlined above. Site planning and design will allow for adjustment based on the configuration and adjacency of the various uses and how each are marketed - example, sales or rentals.

PROPOSAL FOR A PUBLIC/PRIVATE PARTNERSHIP (PPP)

We propose to work with the Town in three phases: 1. Programming/planning, 2. Development and 3. Management/maintenance operations.

1. Programming/Planning

R&D's responsibility in this phase will be to program and plan the property in sufficient detail to portray the type, quantity and appearance of the project and to accurately bracket development costs and income. Products for this phase of the process will be:

- Existing conditions map – property boundaries, setbacks, utility rights-of-ways, existing improvements (roads, other), topography, vegetation, access points and whatever additional physical features that influence development
- Development program – dwellings (type, quantity, etc.), buildings (sq ft by use, height), parking, circulation (vehicular and pedestrian) and open space (use, quantity, amenities, etc.)
- Development plan – location of buildings, parking, circulation and open space
- Preliminary phasing plan – flexible in able to respond to market shifts
- Three dimensional images to portray design intent in response to the market and the budget
- Financial summary – cost and income numbers, a draft development proforma and an investment prospectus outline
- Development agreement outline – legal structure (HOA, management/maintenance, liability assignment, etc.), investor prospectus, developer responsibilities, Town responsibilities, net income distribution formula, other
- Summary document – a written and graphic depiction of the above suitable for reproduction

The Town's responsibilities will be judicious review and response to the material presented by R&D and to expedite a timely public approval at the "Subdivision Sketch Plan" based on the agreed upon plan that emerges from the foregoing work.

We would carry out this work as consultants to the Town at a rate of \$25 per hour (normal rate is \$125 per hour). The reason to work at the reduced rate is to

favorably posture ourselves to work with the Town on the development phase which is outlined below. We estimate the above tasks would be completed in three to four months plus the time required for political processing. The estimated cost is \$25,000 to \$30,000 for fees and expenses. This material would be the property of the Town to be used for the development phase irrespective of the developer chosen.

At the conclusion of the planning phase the Town will have several development options. The Town appears to have assumed that a PPP will be the development vehicle to implement the project. Creating and executing a PPP requires significant public investment and a considerable level of civic skills. However, other means may be considered as each public step toward development increases the worth of the property and the level of control available to the Town. For example, the Town could sell the property at this point with entitlements in place. The next step could be to build the infrastructure then sell the property or parcels with a plan and program in place. Both these options would increase the worth of the property. Given the establishment of clear and enforceable guidelines, these options or some variation may achieve the community's objectives without the need for a PPP.

2. Development

The development phase has far too many variables to allow specificity at this juncture. The Programming and Planning work will provide considerable clarity as a basis for a Public/Private Partnership (PPP) in New Castle. However, the structure of the PPP can be broadly defined based on successful models from similar PPPs in other communities many of which share a common palette of ingredients.

First it is essential that there be a public project manager (PM) with authority to act in the public partner's behalf; this to avoid too many cooks in the kitchen. This position should be monetarily incentivized based on financial performance and achievement of community objectives. This PM should report to public officials but should not be impeded by micro-management from the officials; the degree of latitude afforded this person based on his/her track record.

Responsibilities of the public partner may include any of the following:

- Land acquisition

- Infrastructure finance and construction funded by municipal bonds – the bonds retired from project revenues
- Land subordination as collateral for construction financing
- Equity contribution from the general fund or other public sources – net project income is normally proportionate to the equity contribution
- Postpone exactions (sewer, water, parks, etc.) with later payments from project net revenues
- Impose a real-estate transfer tax or fee for additional public revenues in perpetuity
- Provide down payment assistance to purchasers

Responsibilities of the private partner (developer) may include any of the following:

- Draft a PPP development agreement
- Define the market and program the project accordingly
- Prepare a project prospectus and secure equity funds
- Prepare a cash flow model as the basis for financial monitoring
- Budget and schedule the project based on the model
- Create a reporting system to regularly update investors
- Establish a management and accounting system
- Retain and manage consultants – legal, planning, architecture, engineering, structural, etc.
- Secure bank construction financing
- Select a building contractor and supervise construction
- Advertise and market the real-estate products
- Distribute net income
- Other

The specifics of the PPP development agreement must be established via negotiation between the participants. The negotiating effort needs be grounded in a high level of mutual trust and acknowledgement of each participant's constraints, motives and capabilities. This is best achieved through the creation of jointly agreed upon principles as the framework for a development agreement. It should be anticipated that circumstances and evolving information may prescribe

adjustments to the agreement as long as the changes conform to the principles – flexibility on the part of the participants is fundamental.

3. Management/Maintenance Operations (MMO)

The ultimate MMO for the project is too far in the future to prescribe at this time. However, this function should reside with the developer until the project is completely built out at which time the Home Owner's Association or an MMO company would assume the MMO responsibilities. During the development period the developer must retain MMO responsibilities in order to maintain the high level of care necessary to market the project.

ATTACHMENTS

- Ensign Qualifications
- RM Construction Co Qualifications
- Example of Planning and Programming Detail
- Example of Financial Detail

DON ENSIGN – Resume

Skills

Real-estate Planning and Development

Land acquisition, securing equity capital, political processing, architectural planning, consultant management, securing construction financing, product marketing and sales

Planning and Design

Building and landscape design and construction – over 40 years experience

Gifted illustrator – formerly by hand, now by computer

Strong sales and client service expertise

Project planning and design based on developer and contractor experience – simplicity, cost control and value based

Computer proficiency – Word, Sketch Up, Power Point, Photo Wizard, Google Earth, Internet Explorer,

Education

1963 – BA Utah State University – Landscaper Architecture

1967 – MA Univ. of Michigan – Urban Design and Natural Resource Mgmt.

1969 – The Rouse Company, Urban Life Center – Intense Course - New Community Development

1969 – 1972 – Harvard Graduate School of Design – Summer Courses in Urban Design

Professional Experience

1959 – 1961 Hillsdale Gardens (partner, owner) – Nursery, Landscape Design, Marketing and Construction

1961 – 1964 Rowsell and Ensign – Spec Home Design, Construction and Sales

1963 – 1967 Utah State University – Assistant Professor of Landscape Architecture

1967 – 1975 North Carolina State University, School of Design – Associate Professor of Land Arch and Urban Design

Director of the Graduate Program in Land Arch and Urban Design

Director of the Basic Design Program – All first and second year students in

Arch, Land Arch, Urban Design, Graphic Design, Product Design

1969 – 1996 Design Workshop Inc – Founder, Owner, Partner

See web site designworkshop.com

1996 – 2008 E&E Development – Owner, Designer, Developer

Projects

320 Main Carbondale, Co – 15,000 sq ft mixed use building Completed 2000

Colorado Place – 30,000 sq ft mixed use building

Mountain Air – 40,000 sq ft mixed use building

Professional Affiliations

Fellow – American Society of Landscape Architects

Congress of New Urbanism

National Trust for Historic Preservation

Former Member – Urban Land Institute

PROSPECTUS
**NEW CASTLE PLANNED UNIT
DEVELOPMENT**



R&D Development Co. LLC
Robert Gibson and Don Ensign

A New “Smart Growth” Community:

High Density

Mixed Use – Commercial and Residential

Approximately 300 Dwellings on 17 acres

Buildings Range from 2 to 4 Stories

Walkable Connections to All Parts of the Community

Community Organized Around Parks and Open Spaces

The Main Park will be Dedicated to the Town

NEW CASTLE PUD – SITE LOCATION



- The site is in the Town of New Castle, Co – 9 miles west of Glenwood Springs, Co
- Formerly farm and ranching – now a bedroom community for construction, tourism and oil/gas employees
- I – 70 interchange at the bottom of the image is the main access to New Castle – about ¼ mile to the left
- The interchange road continues North past the site to the remainder of Lakota Canyon Ranch community
- The site is bounded on the East by 1800 feet the golf course
- Commercial uses flanking the entry road include grocery, liquor, gas station, Mac Donald's and others

NEW CASTLE PUD – DEVELOPMENT GOALS

- Optimize development ROI by staging infrastructure phasing with building construction
- Deliver housing types and sizes that fulfill market demand (singles, families, cohabiting adults, retirees, etc.) at a price below regional comparables
- Create a great neighborhood with a sense of place via high level of amenity (on-site shopping and services, parks and open space, pedestrian walks and trails, views, sun access, ample parking, golf views, potential golf privileges, etc.) to accelerate sales pace
- Minimize up-front consultant, infrastructure and construction costs via accurate development and construction cost control (Gibson is an experienced developer and contractor) reduced planning, design and approval fees (Ensign is an experienced planner and developer), and reduced marketing and sales expense (Gibson is also a licensed real-estate broker)
- Capitalize on existing infrastructure via careful phasing dictated by sales pace – building infrastructure ahead of individual building phases will not be required
- Build condo and town house units in increments that avoid out-pacing the market or sell condo sites to secondary developers who would build to pre-determined templates along with the required infrastructure
- Instrument the Home Owner’s Association so that members cannot interfere in subsequent project phases
- Create development and construction quality standards that preclude resident capitulation for post-development problems
- Grade, irrigate and seed the public park in phase two with further improvements in later phases to accelerate sales pace and price escalation for the housing
- Capitalize on economic cycles – build during recession, rent during depressed sales periods and sell when existing regional housing supply has been absorbed
- Create the highest real-estate development ROI in the mid-valley region

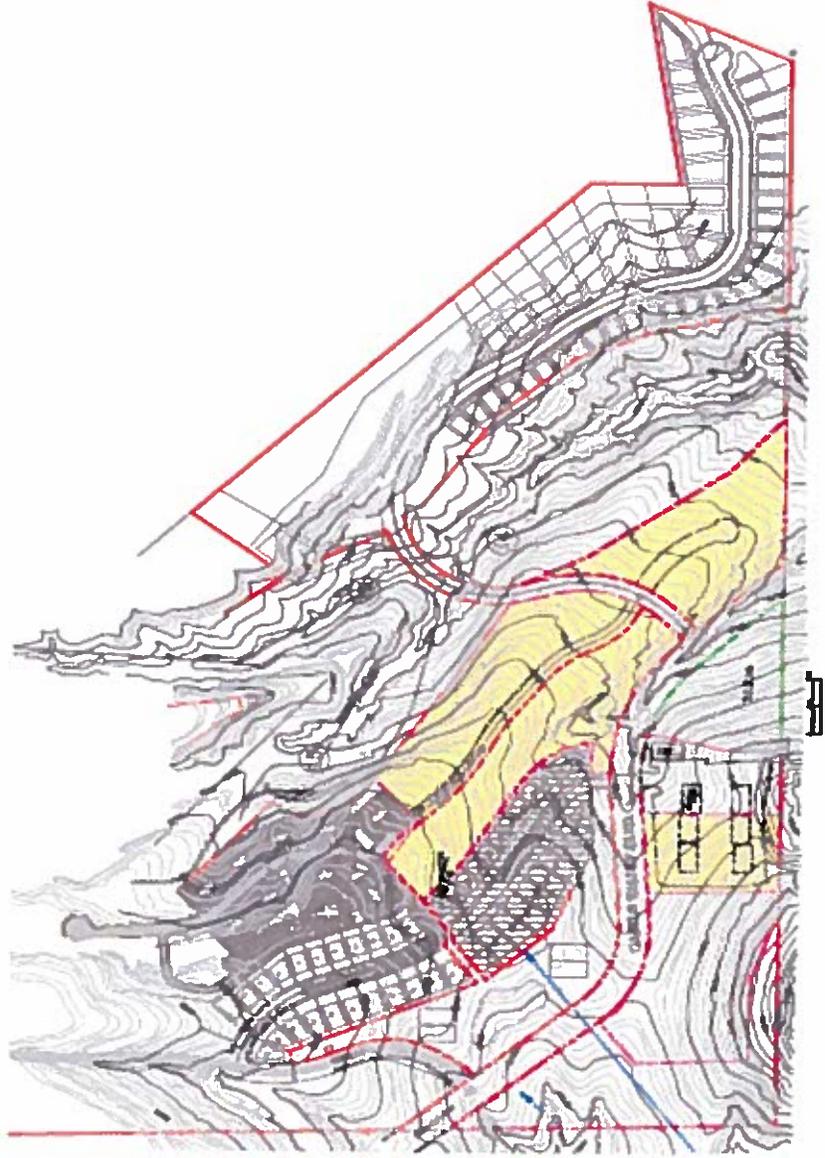
NEW CASTLE PUD – COMMUNITY BUILDING

The project will several years to developed. As a result, community building for the venture will be foundational as the means to accelerate construction and sales momentum and to enhance sales price escalation over the extended development life of the project via:

- **High Density – Lots of People**
- **Mixed Use – Commercial Space on the Ground Floor in the Central Core**
- **Public On-Site Amenities and Outdoor Activities at the Core**
- **Public Park at the Project Center with Convenient On-Street Parking**
- **Dwellings Have Views and Direct Access to Open Space and Outdoor Activities**
- **Open Space Optimizes Views and Provides Sites for Designated Public Activities**
- **Contain Storm Run-off Via Detention Basins in the Open Spaces**
- **Connect All Parts of the Community with Sidewalks, Trails and the Existing Trail System**
- **Minimize Auto Use Via the Attractive, Safe and Convenient Pedestrian/Bike Network**
- **No Parking Lots – Resident Parking in Buildings with on-Street Parking for All Others**
- **Line Streets with Trees to Shade Pedestrian/Bike Ways with Evergreens at Entries**
- **Create a “Sense of Place” Via the Provision and Location of Public Activities**
- **Community Building Results From Realizing the above**

NEW CASTLE PUD – SITE CONSIDERATIONS

- The site (yellow) is relatively flat – 4% from north to south – steepest slopes 12%
- All utilities are in place in all the streets (red) bounding and bisecting the site
- Existing lots bordering the property range from 4000 to 8000 sq ft
- Fine golf course views of holes 13, 14 and 15 along the site's east edge
- Mountain views dominate the entire site
- Winter and summer temperatures are mild with little winter snow accumulation
- Non-expansive soils are well suited for development
- The I – 70 freeway cannot be seen or heard from the anywhere on the property



NEW CASTLE PUD – THE MARKET

Developing non-government controlled affordable housing is not feasible in the Roaring Fork Valley because:

- Very high land and construction cost
- Political growth resistance in general; specifically large projects and/or high density
- The cost of land with municipal services (sewer, water, electric, etc.) in the lower Roaring Fork Valley ranges from about \$20 to over \$100 per sq. ft.
- Land cost for this property is less than \$1 per sq. ft. with all services in place
- Construction costs are significantly lower due to reduced travel time and expense for construction material, equipment and the work force
- The property is zoned, town government wants the project and the approval time is 6 months or less

As a result, condos can be constructed for \$? per sq. ft. including land cost. Rental rate for a 1000 sq. ft. unit will be from \$? to ? per month. Comparable size and quality units in Glenwood (9 miles from New Castle) are 20% to 40% higher; further up valley rates are increasingly greater. The price advantages are obvious.

The primary market for this product is government, construction and services employees and their families. Secondary markets include retirees, energy company personnel and second home renters.

There is little doubt about the strength of this market. However, market depth is uncertain. In response, the project is phased to avoid out-pacing the market, low land cost can be absorbed in the initial phases and any remaining unsold land can be converted to other housing types.

Market for a hotel is also uncertain. If a hotel developer/operator cannot be secured, the parcel will be converted to condos and commercial uses – same high density product.

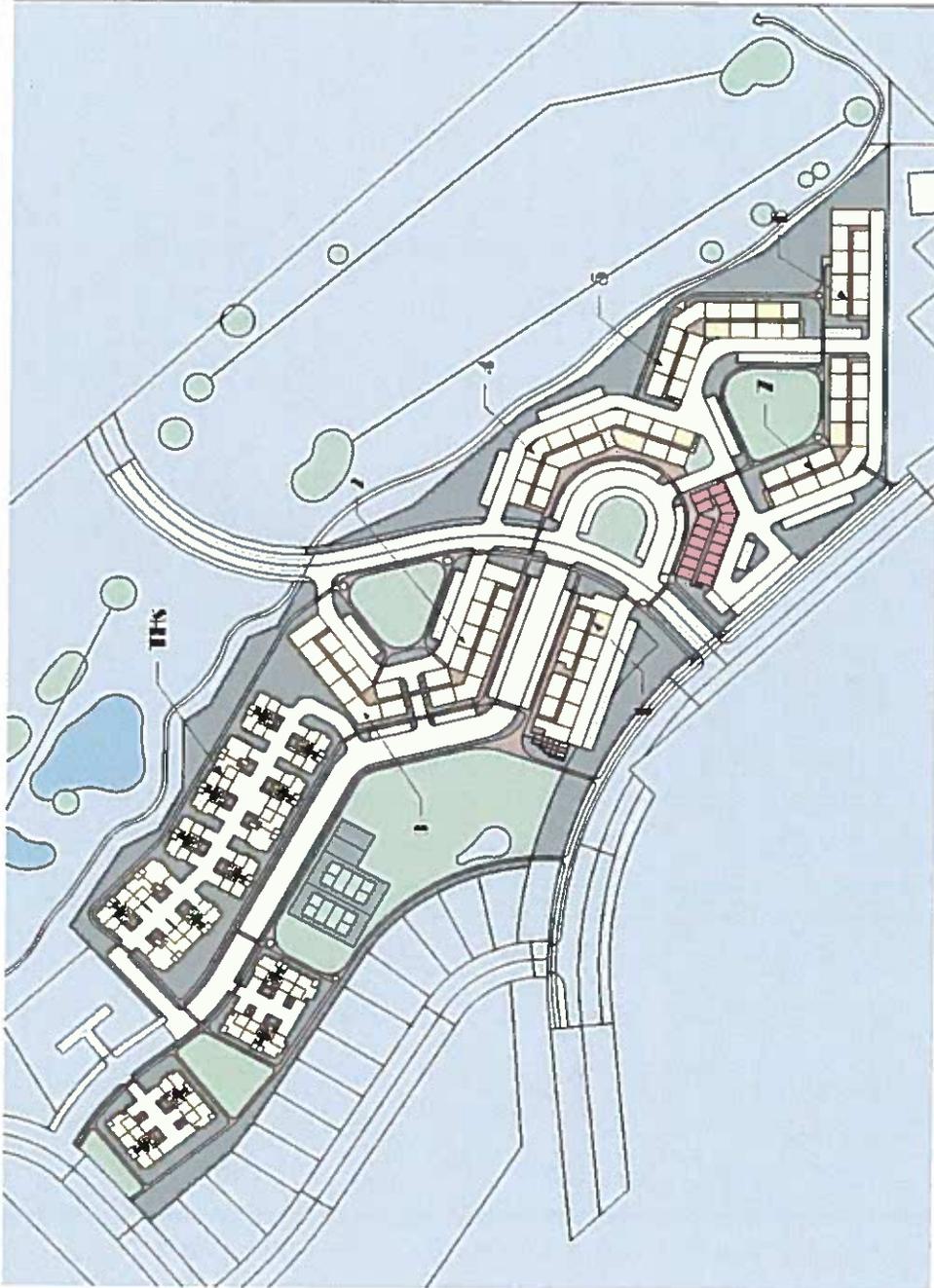
NEW CASTLE PUD – SITE DEVELOPMENT AREA



This diagram illustrates parcel sizes. Zoning prescribes a 50 foot building setback from the primary road and 30 foot setbacks from secondary roads and some property boundaries (shown in pink). The northern parcel yields approximately 9.9 acres of developable land and the southern parcel approximately 4.9 acres totaling 14.8 acres.

Also illustrated are the commercial uses close by and the adjacent golf course (marketing plusses) and the new fire station across the road (favorable insurance rates).

NEW CASTLE PUD – RESIDENTIAL PROGRAM SUMMARY

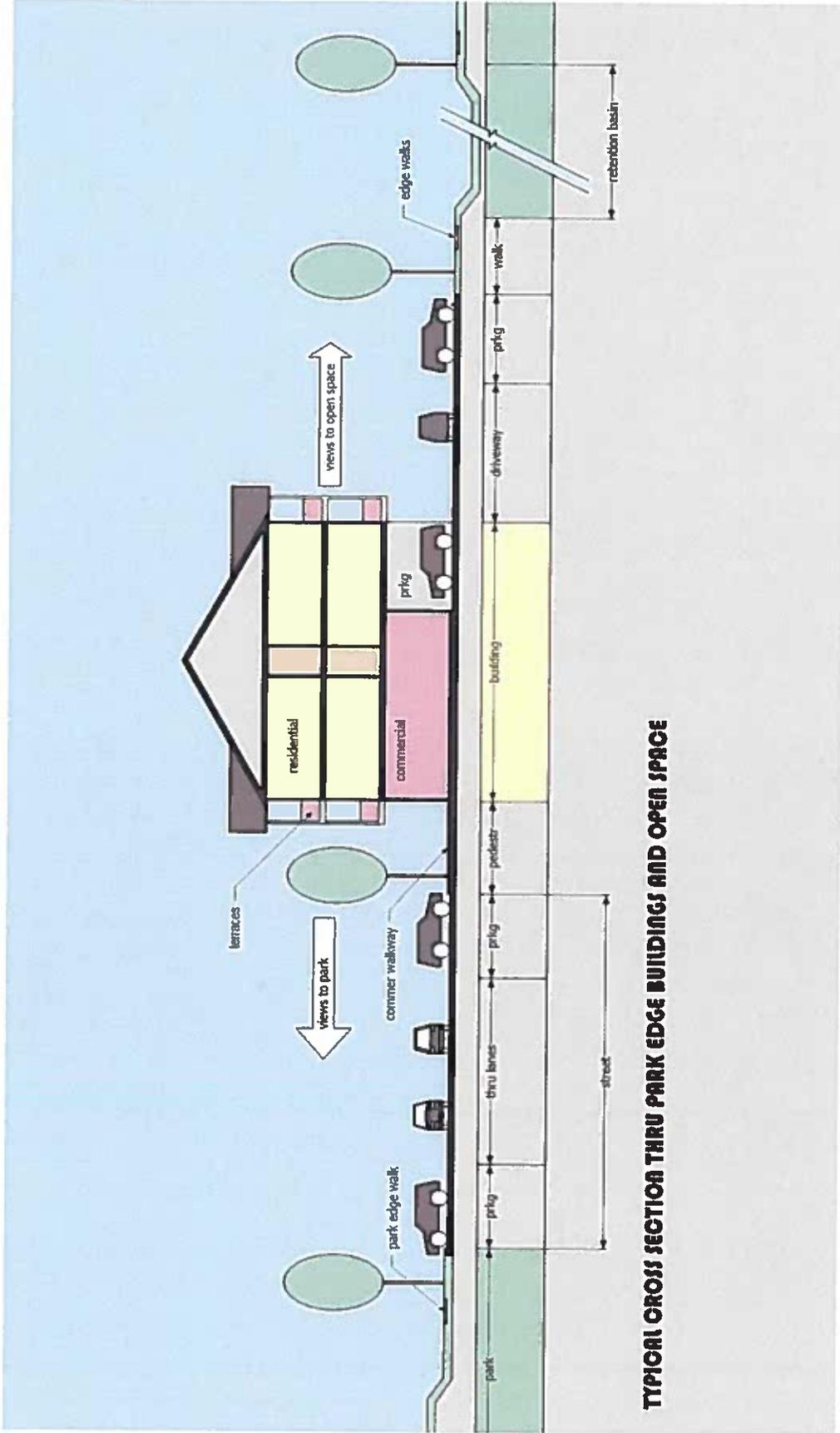


UNIT TYPES

Symbol	Use
	Residential Dwellings
	Walkways and Pedestrian Circulation
	Parks and Active Open Space
	Peripheral Open Space
	Streets and Parking

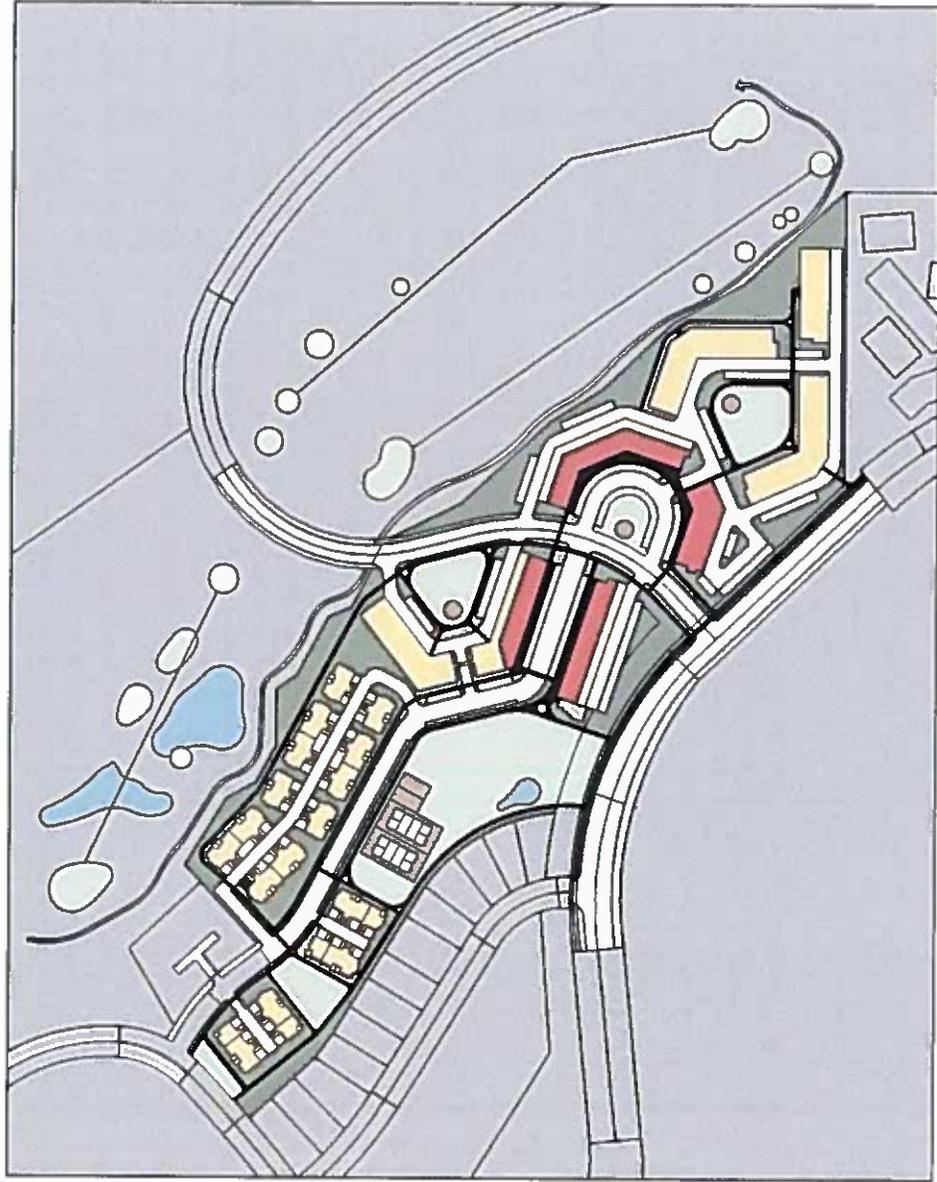
Unit Type	Count
1	25
2	24
3	31
4	45
5	38
6	23
7	38
TOTAL COURTS	224
TOWN HOUSES	36
TOTAL RES UNITS	260
TRAILERS	60
GRAND TOTAL	320

NEW CASTLE PUD – PROTOTYPE SECTION



TYPICAL CROSS SECTION THRU PARK EDGE BUILDINGS AND OPEN SPACE

NEW CASTLE PUD – LAND USE PLAN



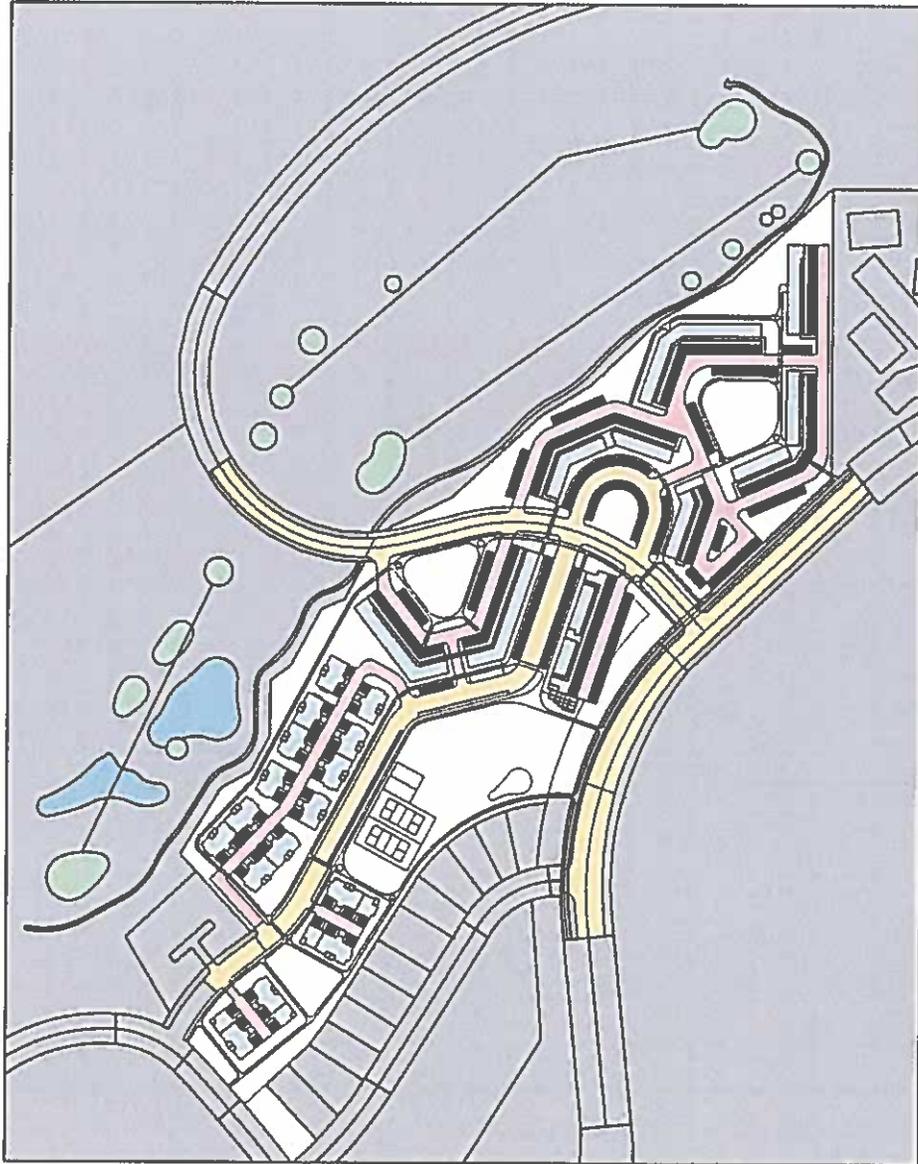
GRAPHIC KEY	LAND USE
	Residential
	Residential over Commercial
	Streets & Parking
	Parks & Programmed Uses
	Sidewalks & Trails

LAND USE DIAGRAM

RODO DEVELOPMENT CO
Scale 1" = 300'

D H EINSIGN - P
March 2016

NEW CASTLE PUD – AUTO CIRCULATION & PARKING



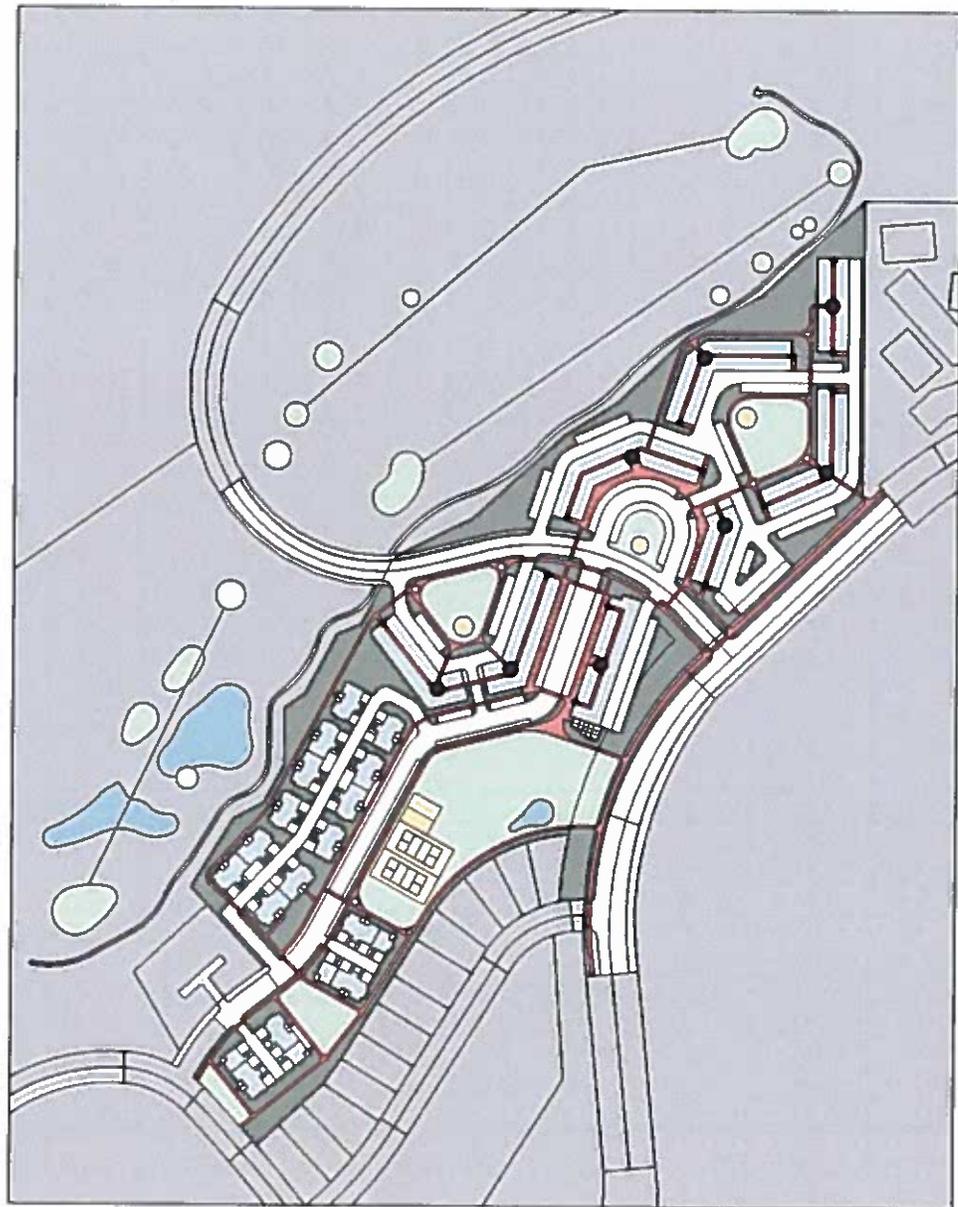
STREETS AND PARKING DIAGRAM

RODO DEVELOPMENT CO
Scale 0' 300'

D H EINSIGN - F
March 2016

GRAPHIC KEY SYMBOL	LAND USE
	Building Footprint
	Public Streets and Parking
	Private Streets and Parking
	Property
	Outside the Property

NEW CASTLE PUD – PEDESTRIAN CIRCULATION AND OPEN SPACE



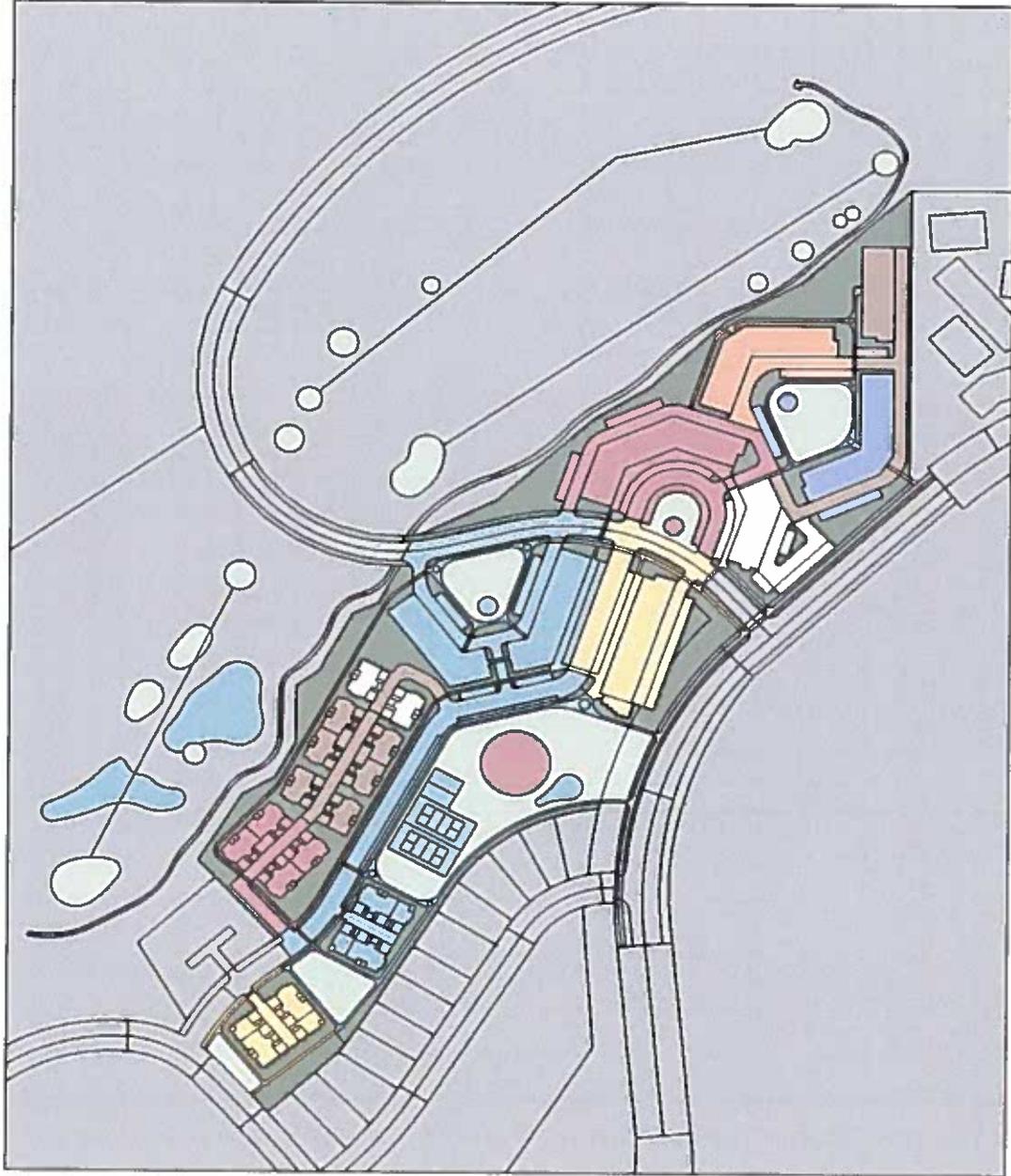
GRAPHIC KEY	SYMBOL	LAND USE
		Building Footprint
		Streets and Roads
		Pedest. Circ, Stairs & Elevators
		Parks & Programmed Uses
		Peripheral open space

D H EINSIG
March 2016

RODO DEVELOPMENT CO
Scale

**PEDESTRIAN CIRCULATION
& OPEN SPACE DIAGRAM**

NEW CASTLE PUD – PHASING PLAN



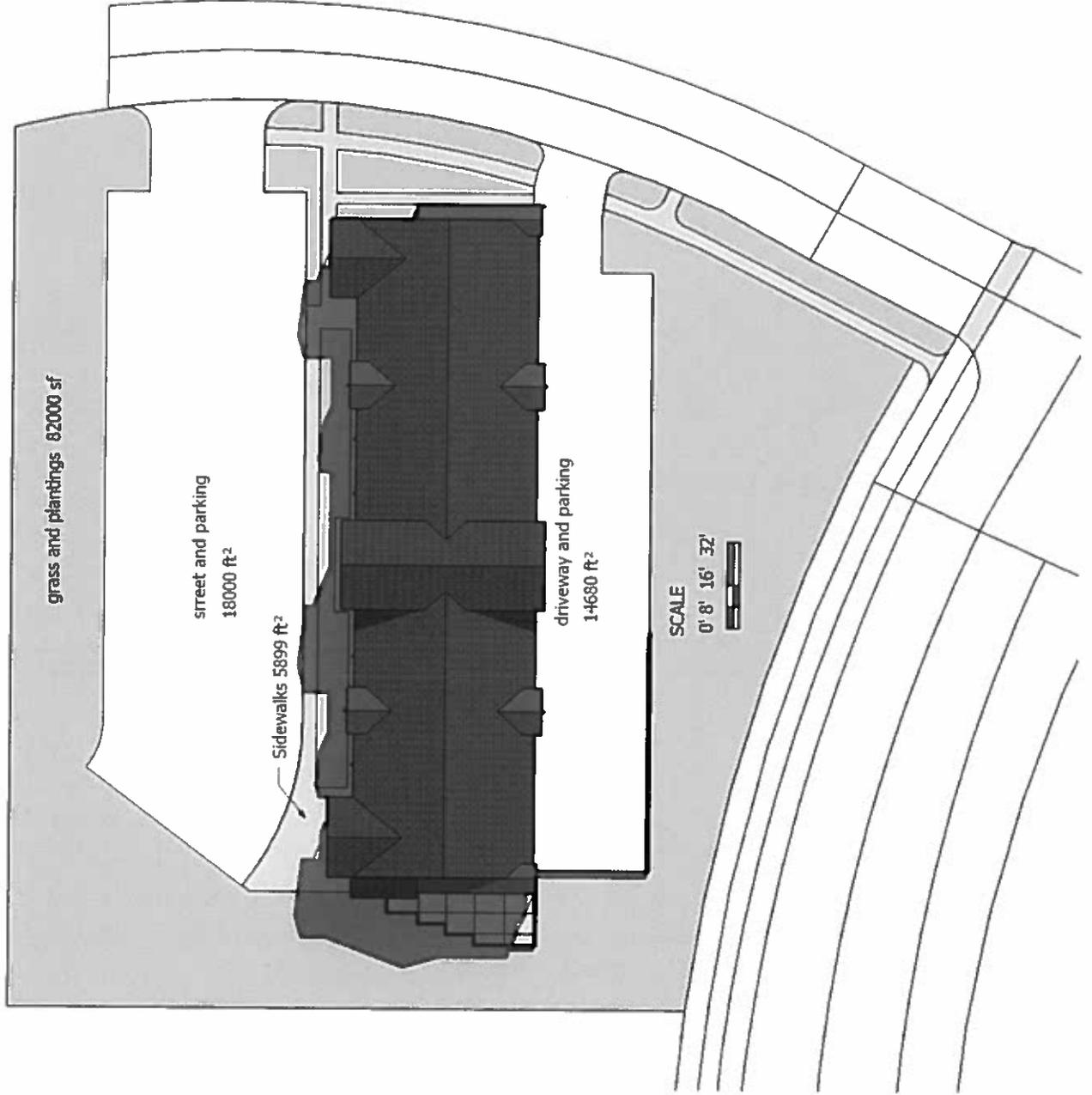
GRAPHIC KEY

Symbol	Land Use
	PHASE ONE
	PHASE TWO
	PHASE THREE
	PHASE FOUR
	PHASE FIVE
	PHASE SIX

RODO DEVELOPMENT CO
Scale 0' 300'

D H EINSIGN - PLAT
March 2016

NEW CASTLE PUD – BLDG ONE PROGRAM



SITE AND BUILDING PROGRAM SUMMARY

SITE		
Property Area		82000 sf
Street and Parking Area		32680 sf
Sidewalks		5899 sf
Grass and Plantings		38320 sf
BUILDING		
Saleable Commercial		6600 sf
Saleable Residential		26169 sf
TOTAL SALEABLE		32769 sf
Total Terraces		1612 sf
Total Hallways & Stairs		5246 sf
TOTAL NON-SALEABLE		5378 sf
TOTAL BUILDING		38147 sf

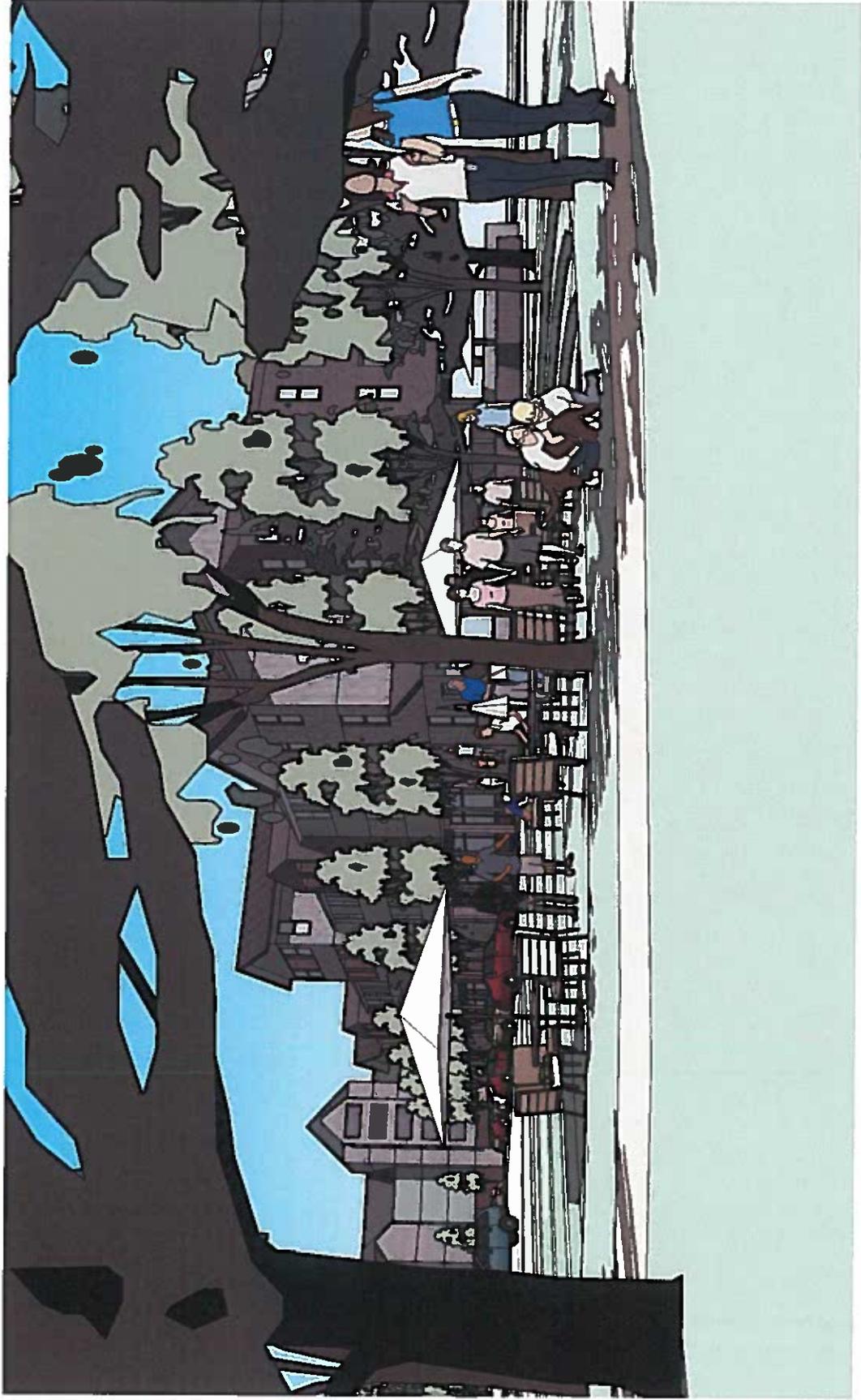
NEW CASTLE PUD – COMMUNITY BENEFITS

- **Increased property and sales tax revenue**
- **Reduced per-unit public service costs (infrastructure maintenance, police, fire, parks & recreation, etc.) due to higher density**
- **Reduced energy consumption due to higher densities – less driving, bldg heating & cooling, maintenance vehicles, etc.**
- **Improved health due to easy access to trails, outdoor activities and shopping**
- **Hotel will generate added lodging tax revenue and support for commercial uses**
- **One eighth % real-estate transfer fee in perpetuity earmarked for parks, recreation and trails acquisition, construction and maintenance**
- **One park and three public open space activity hubs provided in the project**
- **Extensive public trails network connecting to services and to the existing trail**
- **On site infrastructure maintenance (streets, three small parks, trails, etc.) to be provided by the Home Owner’s Association**
- **A high quality public “place” that will provide an example for other projects**

NEW CASTLE PUD – PLACE MAKING 3D CENTRAL CORE



NEW CASTLE PUD – PLACE MAKING SPECIAL EVENTS AREA



NEW CASTLE PUD – PLACE MAKING CORE CIRCLE



NEW CASTLE PUD – PHASE ONE FINANCIAL SUMMARY

DEVELOPMENT COSTS

Cost item	Square Feet	Cost/SF	Total Cost
Land 17 Acres	740,520	.92	1. 700,000
Building	38,150	115	2. 4,387,000
Street & Parking	17,000	5	3. 81,000
Utilities			4. 20,000
Landscaping	20,000	4	5. 80,000
Ext Lighting			6. 6000
Sub Total			5,274,000
Soft Costs @ 8%			7. 422,000
Town Fees			8. 290,000
Total Development Cost			5,986,000
Contingency 10%			598,000
Total Project Cost			6,584,000
Equity Required 40%			9. 2,634,000
Construction Loan Rolled Over To 25 Yr Mortgage			10. 3,950,000
Annual Mortgage Debt Service			11. 275,000

PROJECT REVENUES

Residential Leases	26,170	15 sf/yr	12. 353,000/yr
Commercial Leases	6600	15 sf/yr	13. 89,000/yr
Total Revenue	32,770	15 sf/yr	442,000/yr
Debt Service			(275,000/yr)
Management/Maintenance Budget			(50,000/yr)
Net Income			117,000/yr

NOTES:

- The land is under contract for \$680K. Terms are - \$35K earnest money in 30 days, goes hard at 60 days. Cash at closing 6 months (180 days). Due to the low cost, the land price is absorbed in phase one.
- The building cost is based on the phase one building design included in this package - prepared by RM Construction (Robert Gibson – a managing partner)
- Streets and parking cost is based on current similar projects under contract
- Utility cost is minimal due to the very short runs to existing town systems
- Phase one landscaping includes sidewalks, irrigation, turf seeding and trees as per plan
- Exterior lighting budget
- Soft costs:
 - o Legal - development agreement, HOA documents, investor contract, etc. 45,000
 - o Land planning and political processing 70,000
 - o Architectural construction documents 51,000
 - o Engineering and surveying 60,000
 - o Construction loan interest – 1 year at 5% 116,000
 - o Accounting and administration 110,000
- Total 452,000
8. Town fees – utility tap fees, processing fees, road impact fee

NEW CASTLE PUD – PHASE ONE FINANCIAL SUMMARY

9. Equity at 40% allows construction loan with no personal guarantees
10. Construction loan at 5% would be converted to mortgage loan at the conclusion of construction – terms; mortgage rate with 25 yr amortization for 10 years then extended or paid off if phase one is sold
11. Annual mortgage P&I at estimated 5% interest
12. Assumes market strength sufficient to maintain full occupancy when rental income is combined with first, last and damage deposit funds
13. Same

PHASE ONE INVESTMENT OPTION # ONE – LEASE UNITS FOR 6 YEARS

Rent the units for 6 years at which time developer liability expires. At that time the LLC may retain the building with increasing rental income, sell the units or sell the building to investors based on cash flow and a renewed depreciation cycle. The following schedule assumes a 5% per year increase in rent rates, 213,000 depreciation per year based on 5,884,000 cost (total cost 6,584,000 minus land cost 700,000) over 27.5 years and a 35% tax bracket for investors yielding 139,000 effective income. Income distribution – 80% investors and 20% general partners.

Six Year Investment Summary for Phase One

Item	yr 2	yr3	yr 4	yr5	yr6	Total
Income	442,000	464,000	487,000	511,000	536,000	2,440,000
Expense	325,000	325,000	325,000	325,000	325,000	1,625,000
Depreciation	139,000	139,000	139,000	139,000	139,000	695,000
Net Income	256,000	278,000	301,000	325,000	350,000	1,510,000

PHASE ONE INCOME DISTRIBUTION

Investors 80%	205,000	222,000	241,000	260,000	280,000	1,208,000
Investor ROI	8%	8%	9%	10%	11%	46%
Gen. Partners 20%	51,000	56,000	60,000	65,000	70,000	302,000

If the condos are sold in 6 years (based on the then current market) it is safe to assume a sales price of \$300 per square foot which is the bottom end of the current market for new condos in the lower Roaring Fork Valley. **At this time, two bedroom condos in the region for under \$300,000 are not available. (Bob – I this true? I know of none).**

Sales income 32,770 sf @ \$300 sf	9,831,000
Pay off debt	3,750,000
Refurbish the units @ 50 sf	1,638,000
Broker fees @ 5%	786,000
1 year income loss	442,000
Net income from condo sales	3,215,000
Rental period income	1,208,000
Total 7 year income	4,423,000
Total investor income 80%	3,538,000
Investor ROI	1134% - 7 yr period yields average 19% per year
General partner income	1,293,000

PHASE TWO INVESTMENT OPTION # 1 – LEASE FOR 6 YEARS

Subsequent phase financials will be similar to the phase one, absent the \$700,000 land cost which is absorbed in phase one. This will improve income by approximately 10 % for each subsequent phase as follows.

Total cost absent land cost							5,884,000
Equity required 40%							2,353,000
Construction Loan Rolled Over To 25 Yr Mortgage							3,531,000
Annual debt service							252,000
Item	yr 2	yr3	yr 4	yr5	yr6	Total	
Income	442,000	464,000	487,000	511,000	536,000	2,440,000	
Expense	252,000	252,000	252,000	252,000	252,000	1,260,000	
Depreciation	139,000	139,000	139,000	139,000	139,000	695,000	
Net Income	329,000	351,000	374,000	398,000	423,000	1,875,000	
Invest. income 80%	263,000	281,000	299,000	318,000	338,000	1,500,000	
ROI	11%	12%	13%	14%	14%	64%	
Gen. partner 20%	65,000	70,000	75,000	80,000	85,000	375,000	

PHASE TWO INCOME DISTRIBUTION

Sales income [32,770 sf @ \$300 sf)	9,831,000
Pay off remaining mortgage debt	3,531,000
Refurbish the units @ 50 sf	1,638,000
Broker fees @ 6%	786,000
1 year income loss	450,000
Net income	3,426,000
Rental period income	1,965,000
Total 7 year income	5,391,000
Total investor income 75%	4,043,000
Investor ROI	171% - 7 yr period yields average 24% per year
General partner income	1,348,000

PHASE ONE INVESTMENT OPTION # 2 – SELL THE UNITS

The market for condos in the Roaring Fork Valley is sluggish primarily due to pricing. Quality 2 bedroom units are seldom listed and sell for between \$350,000 and \$500,000 which is beyond what most employees can afford. The combination of high land cost, protracted and risky political approval periods, long construction material delivery and worker commute times and high HOA dues precludes affordability. Government created housing is appreciation capped which is an unacceptable encumbrance to most potential buyers.

PHASE TWO – INCOME DISTRIBUTION

Sales income 32, 770 sq ft at \$250 per sq ft	8,192,000
Project cost (no land cost reduces total cost 700,000)	5,884,000 equity 40% = 2,354,000
Broker fees @ 6%	655,000
Income	1,653,000
Investor income 75%	1,240,000
Investor ROI	52% = 26% per yr over 2 yrs
General partners @ 25%	413,000

