



## Apartment Model

Hanover Development Inc.

Development Pro Forma

50 Unit Condo/Apartment Development

124 West Colorado  
Glendale California

Glendale California

Report Date: May 29, 2013  
Report Time: 12:31:08 PM

**50 Unit Condo/Apartment Development**

| Source of Funds        | Auto.<br>Contribution | Timed<br>Contribution | Total<br>Contribution | Balance<br>O/S at<br>Project End | Interest         | Fees           | Preferred<br>Return<br>Paid | Profit           | Total Int.,<br>Fees, Pref.<br>Return & Profit | Peak<br>Financing | IRR %    |
|------------------------|-----------------------|-----------------------|-----------------------|----------------------------------|------------------|----------------|-----------------------------|------------------|---|-------------------|----------|
| Primary Equity Partner | 18,490                | 6,640,443             | 6,658,933             | 0                                | 0                | 0              | 2,581,683                   | 1,582,231        | 4,163,914                                     | 6,658,933         | 12.22%   |
| Co-Investment Capital  | 2,054                 | 737,827               | 739,881               | 0                                | 0                | 0              | 286,854                     | 339,049          | 625,903                                       | 739,881           | 15.38%   |
| HD                     | 0                     | 0                     | 0                     | 0                                | 0                | 0              | 0                           | 226,033          | 226,033                                       | 0                 | Infinite |
| LW                     | 0                     | 0                     | 0                     | 0                                | 0                | 0              | 0                           | 113,016          | 113,016                                       | 0                 | Infinite |
| Construction Loan      | 12,896,075            | 0                     | 12,896,075            | 0                                | 1,557,954        | 180,675        | 0                           | 0                | 1,738,629                                     | 13,752,652        | 0.00%    |
| Mortgage               | 0                     | 0                     | 18,817,016            | 0                                | 1,473,184        | 186,307        | 0                           | 0                | 1,659,491                                     | 0                 | 5.81%    |
| Balancing Account      | 0                     | 0                     | 0                     | 0                                | 0                | 0              | 0                           | 0                | 0   | 0                 | 0.00%    |
|                        | <b>12,916,620</b>     | <b>7,378,270</b>      | <b>39,111,906</b>     | <b>0</b>                         | <b>3,031,138</b> | <b>366,982</b> | <b>2,868,537</b>            | <b>2,260,329</b> | <b>8,526,987</b>                              |                   |          |

**50 Unit Condo/Apartment Development**

| Source of Funds        | ROE %  | Tax on Profit | After Tax<br>IRR % | After Tax<br>ROE % |
|------------------------|--------|---------------|--------------------|--------------------|
| Primary Equity Partner | 62.53% | 0             | 12.22%             | 62.53%             |
| Co-Investment Capital  | 84.60% | 0             | 15.38%             | 84.60%             |
| HD                     | 0.00%  | 0             | Infinite           | 0.00%              |
| LW                     | 0.00%  | 0             | Infinite           | 0.00%              |
| Construction Loan      | 0.00%  | 0             | 0.00%              | 0.00%              |
| Mortgage               | N/A    | 0             |                    |                    |
| Balancing Account      | N/A    | 0             | N/A                | N/A                |
|                        |        | <b>0</b>      |                    |                    |

**50 Unit Condo/Apartment Development**

Pro Forma for Phase 2 Alton Apartments - Capitalized Assets

Currency in \$

**REVENUE**

**Rental Area Summary**

|                                | <b>Units</b> | <b>ft²</b>    | <b>Rate ft²</b> | <b>Unit Amount</b> | <b>Rent at Lease Start</b> | <b>Rent At Sale</b> |
|--------------------------------|--------------|---------------|-----------------|--------------------|----------------------------|---------------------|
| ‡ A1 1/1.....865 sf            | 20           | 17,300        | 2.80            | 29,064             | 581,280                    | 608,181             |
| ‡ A2 1/1.5 - Loft.....1,065 sf | 1            | 1,065         | 2.60            | 33,228             | 33,228                     | 34,766              |
| ‡ A3 1/1.5 Loft.....1,150 sf   | 5            | 5,750         | 2.60            | 35,880             | 179,400                    | 187,703             |
| ‡ B1 2/2B.....1374 sf          | 10           | 13,740        | 2.80            | 46,166             | 461,664                    | 483,030             |
| ‡ B2 2/2 TH.....1690 sf        | 2            | 3,380         | 2.15            | 43,602             | 87,204                     | 91,240              |
| ‡ B3 2/2 Loft.....1699 sf      | 3            | 5,097         | 2.15            | 43,834             | 131,503                    | 137,588             |
| ‡ C1 3/2.....1600 sf           | 1            | 1,600         | 2.40            | 46,080             | 46,080                     | 48,213              |
| ‡ C2 3/2.....1743 sf           | 3            | 5,229         | 2.25            | 47,061             | 141,183                    | 147,717             |
| ‡ C3 3/2.....1843 sf           | 3            | 5,529         | 2.30            | 50,867             | 152,600                    | 159,663             |
| ‡ C4 3/2.5 Loft.....2293 sf    | 1            | 2,293         | 2.00            | 55,032             | 55,032                     | 57,579              |
| ‡ D1 4/3 Loft.....2108 sf      | <u>1</u>     | <u>2,108</u>  | 2.15            | 54,386             | <u>54,386</u>              | <u>56,903</u>       |
| <b>Totals</b>                  | <b>50</b>    | <b>63,091</b> |                 |                    | <b>1,923,560</b>           | <b>2,012,582</b>    |

**Investment Valuation**

**Alton 170 Whole Project**

**Revenues**

|                  |       |          |         |                |
|------------------|-------|----------|---------|----------------|
| Storage Rental   | 3,600 | Cap Rate | 5.0000% | 72,000         |
| Reserved Parking | 7,200 | Cap Rate | 5.0000% | 144,000        |
|                  |       |          |         | <b>216,000</b> |

**Expenses**

|                |           |          |         |                     |
|----------------|-----------|----------|---------|---------------------|
| Salaries       | (126,180) | Cap Rate | 5.0000% | (2,523,600)         |
| Advertising    | (6,312)   | Cap Rate | 5.0000% | (126,240)           |
| Maintenance    | (39,048)  | Cap Rate | 5.0000% | (780,960)           |
| Mgmt Fee       | (65,856)  | Cap Rate | 5.0000% | (1,317,120)         |
| Administration | (15,768)  | Cap Rate | 5.0000% | (315,360)           |
| Utilities      | (47,316)  | Cap Rate | 5.0000% | (946,320)           |
| Taxes          | (206,136) | Cap Rate | 5.0000% | (4,122,720)         |
| Insurance      | (107,088) | Cap Rate | 5.0000% | (2,141,760)         |
|                |           |          |         | <b>(12,274,080)</b> |
|                |           |          |         | <b>(12,058,080)</b> |

|  |         |          |         |            |
|--|---------|----------|---------|------------|
| <b>A1 1/1.....865 sf</b>                         |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 577,772 | Cap Rate | 5.0000% | 11,555,445 |
| <b>A2 1/1.5 - Loft.....1,065 sf</b>              |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 33,027  | Cap Rate | 5.0000% | 660,550    |
| <b>A3 1/1.5 Loft.....1,150 sf</b>                |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 178,317 | Cap Rate | 5.0000% | 3,566,348  |
| <b>B1 2/2B.....1374 sf</b>                       |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 458,878 | Cap Rate | 5.0000% | 9,177,561  |
| <b>B2 2/2 TH.....1690 sf</b>                     |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 86,678  | Cap Rate | 5.0000% | 1,733,555  |
| <b>B3 2/2 Loft.....1699 sf</b>                   |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 130,709 | Cap Rate | 5.0000% | 2,614,181  |
| <b>C1 3/2.....1600 sf</b>                        |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 45,802  | Cap Rate | 5.0000% | 916,039    |
| <b>C2 3/2.....1743 sf</b>                        |         |          |         |            |
| - 5.000% vac. / non recov. cost Capitalised Rent | 140,331 | Cap Rate | 5.0000% | 2,806,620  |
| <b>C3 3/2.....1843 sf</b>                        |         |          |         |            |
| - 5.000% vac. / non recov. cost                  |         |          |         |            |

**50 Unit Condo/Apartment Development**

|                                  |         |          |         |                   |
|----------------------------------|---------|----------|---------|-------------------|
| Capitalised Rent                 | 151,680 | Cap Rate | 5.0000% | 3,033,590         |
| <b>C4 3/2.5 Loft.....2293 sf</b> |         |          |         |                   |
| - 5.000% vac. / non recov. cost  |         |          |         |                   |
| Capitalised Rent                 | 54,700  | Cap Rate | 5.0000% | 1,093,998         |
| <b>D1 4/3 Loft.....2108 sf</b>   |         |          |         |                   |
| - 5.000% vac. / non recov. cost  |         |          |         |                   |
| Capitalised Rent                 | 54,058  | Cap Rate | 5.0000% | 1,081,164         |
|                                  |         |          |         | <b>26,180,971</b> |

**Operated Assets**

**Alton 170 Whole Project**

**Revenues**

|                  |  |  |  |        |
|------------------|--|--|--|--------|
| Storage Rental   |  |  |  | 9,900  |
| Reserved Parking |  |  |  | 19,800 |
|                  |  |  |  | 29,700 |

**Expenses**

|                |  |  |  |                    |
|----------------|--|--|--|--------------------|
| Salaries       |  |  |  | (346,995)          |
| Advertising    |  |  |  | (17,358)           |
| Maintenance    |  |  |  | (107,382)          |
| Mgmt Fee       |  |  |  | (181,104)          |
| Administration |  |  |  | (43,362)           |
| Utilities      |  |  |  | (130,119)          |
| Taxes          |  |  |  | (566,874)          |
| Insurance      |  |  |  | (294,492)          |
|                |  |  |  | (1,687,686)        |
|                |  |  |  | <b>(1,657,986)</b> |

Income from Tenants 5,143,473

**TOTAL PROJECT REVENUE**

**29,666,458**

**OUTLAY**

**ACQUISITION COSTS**

|   |       |  |  |           |
|---|-------|--|--|-----------|
| Fixed Price (0.51 Acres 8,817,647.06 pAcre) |       |  |  | 4,497,000 |
| Supplemental Tax Bill                       | 0.62% |  |  | 27,881    |
| Procuring Broker                            | 3.00% |  |  | 134,910   |
| Acquisition Legal                           |       |  |  | 25,000    |
| Market Study                                |       |  |  | 15,000    |
| Cost Study                                  |       |  |  | 15,000    |
| Architectural Review                        |       |  |  | 5,000     |
| Entitlement Consultant review               |       |  |  | 5,000     |
| Other                                       |       |  |  | 5,000     |
|   |       |  |  | 4,729,791 |

**Other Acquisition**

|                   |       |  |  |         |
|-------------------|-------|--|--|---------|
| Partnership Legal |       |  |  | 50,000  |
| Capital Fee       | 3.00% |  |  | 134,910 |
| HD Fee            | 1.00% |  |  | 44,970  |
|                   |       |  |  | 229,880 |

**CONSTRUCTION COSTS**

**Construction**

|                         | Units | Unit Amount | Cost             |                  |
|-------------------------|-------|-------------|------------------|------------------|
| Alton 170 Whole Project |       |             |                  |                  |
| - TS Estimate           |       |             | 8,013,700        |                  |
| - Sewer                 |       |             | 50,000           |                  |
| - Stormdrain            |       |             | 55,000           |                  |
| - Curb & Gutter         |       |             | 25,000           |                  |
| - Paving                |       |             | 10,000           |                  |
| - Dry Utilities         |       |             | 50,000           |                  |
| - Walks                 |       |             | 75,000           |                  |
| - Common Area           |       |             | 200,000          |                  |
| - Rec Center            |       |             | 150,000          |                  |
| - Rental Office         |       |             | 25,000           |                  |
| - Model Unit            |       |             | 50,000           |                  |
|                         |       |             | <u>8,703,700</u> |                  |
|                         |       |             |                  | <b>8,703,700</b> |

**50 Unit Condo/Apartment Development**

|  |   |           |                   |
|--|---|-----------|-------------------|
| Building Contingency                                   | 10.00%                                      | 983,698   |                   |
| Developers Contingency                                 | 5.00%                                       | 609,023   |                   |
| Demo Existing Structures                               |   | 133,278   |                   |
| Site Improvements                                      |   | 918,000   |                   |
| Impact Fees Paid @ BP                                  | 50 un 10,000.00 /un                         | 500,000   |                   |
| School Fees  | 63,091 ft <sup>2</sup> 2.25 pf <sup>2</sup> | 141,955   |                   |
| Building Permits                                       | 50 un 5,000.00 /un                          | 250,000   |                   |
|  |   |           | 3,535,953         |
| <b>Other Construction</b>                              |   |           |                   |
| Construction Indirects                                 |   | 1,000,000 | 1,000,000         |
| <b>PROFESSIONAL FEES</b>                               |   |           |                   |
| Civil Engineer   |   | 150,000   |                   |
| Soils  |   | 125,000   |                   |
| Architect  |   | 550,000   |                   |
| Structural Engineer                                    |   | 150,000   |                   |
| Title 24 Consultant                                    |   | 35,000    |                   |
| HVAC   |   | 20,000    |                   |
| Plumbing   |   | 15,000    |                   |
| Electrical   |   | 15,000    |                   |
| Landscape Architect                                    |   | 125,000   |                   |
| Misc   |   | 50,000    |                   |
| Project Manager  | 0.50%                                       | 48,518    |                   |
| Indirects - Site Management                            |   | 125,000   |                   |
| Other Professionals                                    |   | 35,000    |                   |
|  |   |           | 1,443,518         |
| <b>MARKETING &amp; LEASING</b>                         |   |           |                   |
| Leasing Legal Fee                                      |   | 50,000    | 50,000            |
| <b>DISPOSAL FEES</b>                                   |   |           |                   |
| Selling Agent Fees                                     | 1.00%                                       | 261,810   |                   |
| Sales Legal Fee  |   | 50,000    |                   |
|  |   |           | 311,810           |
| <b>Additional Costs</b>                                |   |           |                   |
| Dev. Management Fee                                    | 5.00%                                       | 831,006   | 831,006           |
| <b>MISCELLANEOUS FEES</b>                              |   |           |                   |
| Insurance  | 1.25%                                       | 159,758   |                   |
| Property Tax (semi annual)                             | 0.62%                                       | 144,054   |                   |
|  |   |           | 303,812           |
| <b>Interest and Fees</b>                               |   |           |                   |
| Interest paid to Debt Sources:                         |   |           |                   |
| Construction Loan (7.00%)                              | 1,557,954                                   |           |                   |
| Total Interest paid to Debt Sources:                   |   | 1,557,954 |                   |
| Mortgage Interest (5.00%)                              | 1,473,184                                   |           |                   |
|  |   | 1,473,184 |                   |
| Total Interest Paid                                    |   |           | 3,031,138         |
| Debt Financing Fees                                    |   |           |                   |
| Construction Loan - Construction Loan (1.25%) (Single) |   | 180,675   |                   |
| Mortgage - % Fee (1.00%) (Single)                      |   | 186,307   |                   |
| Total Debt Financing Fees                              |   |           | 366,982           |
| <b>Total Interest and Fees</b>                         |   |           | <b>3,398,120</b>  |
| <b>TOTAL COSTS</b>                                     |   |           | <b>24,537,591</b> |

**50 Unit Condo/Apartment Development**

**PROFIT**

|                          |           |           |                  |
|--------------------------|-----------|-----------|------------------|
| Primary Equity Partner   |           |           |                  |
| Preferred Return (8.00%) | 2,581,683 |           |                  |
| IRR Lookback (12.00%)    | 1,582,231 |           |                  |
|                          |           | 4,163,914 |                  |
| Co-Investment Capital    |           |           |                  |
| Preferred Return (8.00%) | 286,854   |           |                  |
| IRR Lookback (12.00%)    | 339,049   |           |                  |
|                          |           | 625,903   |                  |
| HD                       |           |           |                  |
| Promote                  | 226,033   |           |                  |
|                          |           | 226,033   |                  |
| LW                       |           |           |                  |
| Promote                  | 113,016   |           |                  |
|                          |           | 113,016   |                  |
|                          |           |           | <b>5,128,866</b> |

**Performance Measures**

|                                |              |
|--------------------------------|--------------|
| Profit on GDV%                 | 19.59%       |
| Development Yield% (on Rent)   | 5.33%        |
| Project IRR% (with Interest)   | 8.38%        |
| Equity IRR% (with Interest)    | 13.23%       |
| Return on Equity%              | 69.32%       |
| Rent Cover                     | 2 yrs 7 mths |
| Land Cost pAcre                | 8,817,647    |
| ‡ Inflation/Escalation applied |              |