

## RFP Follow-up Questions Response

December 7, 2017

Kathy Kleinbaum  
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City of San Mateo  
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Dear Kathy:

In response to your follow up questions on our proposal, please see our responses below in red. Thank you.

1. On page 19, you state your hard cost budget was provided by Palisades Builders, which has experience with prevailing wage projects. However, you do not explicitly state that prevailing wages were assumed. Please confirm your financials assume prevailing wages for construction.  
**Yes, prevailing wage is assumed.**
2. In your cash flow analysis on page 25, what is the anticipated source of the “other revenue (net of vacancy)”?  
**This figure represents our revenue generated at the residential property (480 E. 4<sup>th</sup> Ave) for miscellaneous fees to residents including utility reimbursements, parking fees, bike and storage fees, pet fees, application fees, etc.**
3. In your cash flow analysis on page 25, it appears that the parking revenue is part of your net operating income whereas on page 18 you indicate that the parking revenue will go to the City. Please confirm your assumptions.  
**For purposes of providing a comprehensive set of cash flows, this analysis included all the costs and revenues associated with the project, therefore we left the costs and revenues associated with the parking structure in the analysis. You are correct in that Raintree is assuming all public parking revenue associated with the 400 E. 5<sup>th</sup> Ave. parking structure will go to the City.**
4. The ground lease assumptions stated on page 18 do not match those shown in the cash flow analysis on page 25. Please clarify the ground lease terms.  
**The Page 25 analysis indicates (3<sup>rd</sup> line from the bottom) an annual ground lease payment of \$10,000. Because our assumption is that the City would take ownership of 400 E. 5<sup>th</sup> Ave. we did not assume a ground lease payment for 400 E. 5<sup>th</sup> Ave, only for 480 E. 4<sup>th</sup> Ave. In the event the City prefers Raintree operate and receive the revenue from the parking structure, Raintree would provide an additional \$10,000 in annual lease payments to the City. I understand how the comment “per site” could be misleading.**

5. Please provide a sources and uses table for the public parking garage, including both hard and soft costs and all sources of funding. Describe the proposed terms for the City contribution and also clarify any assumptions on the use of parking revenues. **Raintree assumes both sites would be developed as a single project for purposes of selecting a general contractor and underwriting a construction loan. For this reason, a specific sources and uses was not provided for the parking garage. At the City's request, a projected sources and uses table for only the parking garage is provided below. Please note the City Contribution could be allocated to either site if the City desired. The funding of this contribution is assumed to be *available* to the Project at the time of construction loan execution (at the beginning of the project). However, the funds would likely be *drawn* over a period of several months.**

SOURCES AND USES - Parking Garage		
<b>SOURCES</b>		
Loan Proceeds	\$9,667,425	45.0%
Raintree Equity	1,815,741	8.5%
City Contribution*	10,000,000	46.5%
<b>Total Sources</b>	<b>\$21,483,166</b>	<b>100.0%</b>
<b>USES</b>		
Total Land Costs	\$0	0.0%
Total Hard Costs	17,876,783	83.2%
Total Soft Costs	2,649,314	12.3%
Total Financing Costs	331,345	1.5%
Total Real Estate Taxes	-	0.0%
Total Operating Shortfall	-	0.0%
Developer Fee (3% of total costs)	625,723	2.9%
<b>Total Uses</b>	<b>\$21,483,166</b>	<b>100.0%</b>
<i>Per Stall</i>	<i>40,155</i>	

\* The City Contribution of \$10M could be allocated partially towards the affordable housing development at the City's discretion. Raintree views the construction of both sites as a single project and the assumption is that a lender would do so as well.

6. In your cash flow analysis on page 25, we do not see any debt service payments. Please clarify. **We plan to put permanent financing on the residential project (480 E. 4<sup>th</sup>) once the asset is stabilized. Assumptions for this debt were not included in the 15-year cash flow. We expect a loan under the following terms:**
- **Rate: 4.93% (2.93% Treasury + 200 basis point spread) Projected using the forward yield curve of the 10-Year Treasury.**
  - **Term: 10 Years (5 years of interest only payments)**
  - **Debt Coverage Ratio: 1.27x (~65% loan-to-value)**
7. Please provide the assumption for the proposed loan terms for your construction and permanent financing.
- **Construction Loan:**

- Rate: 4.89%. (30-day Libor + 300 bps spread) based on forward 30-day Libor curve. We also assume Libor increases by 50 bps per year during construction.
- Loan-to-Cost: 55% (debt yield of 9.5-10.5%)
- Term: 3 Years + two 12-month extensions
- Permanent Financing: See terms listed above from question #6.

8. If the City were to exercise the option to use \$4.5 million of our housing funds to increase the number of affordable units, does the price quoted per unit already take into consideration the impact on the cash flow and overall project economics? Yes, assuming the funds contributed from the housing fund were considered a grant. If the \$4.5 million were contributed as only a loan, it would depend upon the terms of that loan and would require more study.

9. Can you clarify the developer fee and profit (return) assumptions for the project? Because of our capital structure and equity relationship Raintree Partners is focused on long-term ownership and does not charge any developer fees on its residential/mixed-use developments. We rely solely on the cash flows and the value created through development process to meet our long-term return hurdles. Our return hurdle for a residential project (480 E. 5<sup>th</sup> Ave.) of this size and location is based on a current yield (income as if stabilized [assuming no rent growth] / total project costs) of 5.40%. This target yield takes into account the level of affordable housing and the ownership structure (i.e., leasehold) of the land.

As we do not plan to operate or have ownership in the city's parking structure (unless the city desires) we do not have a return hurdle for the parking garage. If the City has a strong desire for the developer to operate and collect revenue associated with the public garage we can discuss in more detail. Raintree proposes a developer fee of 3.0% of total project costs for the parking structure (see sources and uses in Question #5).

Regards,

Rick

Richard W. Price

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