

1322 D STREET

PROPOSAL



TURTON
COMMERCIAL REAL ESTATE



ABOUT
**PATRICK
STELMACH**



Patrick is the Director focusing on multifamily, residential income and mixed-use properties in the Urban Core. Prior to joining Turton Commercial Real Estate, Patrick was involved in high-density infill housing projects as a public affairs consultant and grant writer for prominent multifamily developers, including A.G. Spanos Companies and Domus Development. Patrick began his real estate career as a Realtor representing homeowners and managing his family’s residential income properties. With a breadth of market knowledge and financial analytics, Patrick advises clients in buying, selling, managing and improving real estate assets to maximize value, sustainability and livability. Having been raised in Sacramento, Patrick has a deep admiration of historic architecture and design. He speaks fluent Polish.

MAXIMUM NET PROCEEDS
BREAKDOWN
PAGE 19

PROPERTY OVERVIEW
1332 D STREET

Your Honor,
Please find below one (1) property valuation for 1322 D Street, Sacramento, CA 95814.

Building Type:	Victorian
Gross Rentable Square Feet:	2,200 SF
Total Parcel Square Feet:	6,534 SF
Year Built:	Unknown
Construction:	Wood Frame
Stories:	2
APN:	002-0123-007-0000
Zoning:	R-3A

1322 D Street (the “Property”) is an approximate 2,200 square foot Victorian style multi-family building located on the south side of D Street, bounded by 13th and 14th Streets, in the submarket better known as Downtown. The Property is located within the “Mansion Flats” neighborhood, also known as the Washington Historic District. This Property is a very attractive opportunity for an owner-user or investor seeking a charming, well-maintained residential property in a centrally located area. The Property is a Duplex, or “Duet,” with two stories, one unit on each floor. Each unit has two bedrooms, one bathroom, measuring approximately 1,100 square feet. The ownership purchased the Property in 1998. Currently the tenants are paying \$1,100 and \$1,200 per month (100% Leased). The Property has a large backyard that backs up to the alley, which may provide an attractive future development opportunity or parking solution.

Mansion Flats and neighboring Alkali Flat are the oldest standing residential neighborhoods in Sacramento, with homes and businesses that date back to the early 1850s. Sacramento’s prominent merchants and political leaders built their ornate mansion homes. The most famous of which is the Historic Governor’s Mansion. Alongside them, employees of the railroads and other industrial workers built smaller but beautifully decorated homes. Over time the neighborhood changed roles but remained a strong community, becoming the home base for Sacramento’s legendary Chicano arts/muralism collective the Royal Chicano Air Force. In recent years, new businesses have opened up in the neighborhood, revitalizing old buildings and accompanied by modern infill homes on formerly vacant lots.

The Property’s proximity to the Golden 1 Center, and the surrounding exciting amenities and large employment centers, may serve as its most underappreciated characteristic. The multi-purpose 780,000 sf, 17,500 seat Golden 1 Center is a transformative project for downtown. The new “Home of the Sacramento Kings” is expected to attract over 1.7 million attendees to a projected 190 annual events and generate over \$230 million in annual economic activity.



PROPERTY OVERVIEW

1332 D STREET



As a result, developer interest in properties throughout Downtown has been robust. In addition to the significant high-rise development projects underway, there have been numerous smaller properties subdivided into two or three lots in order to retain the existing historic homes facing the street and develop the new alley-facing lots into additional residential units. Recent examples serving as case studies include 1318 F Street, 2010 F Street, 816 T Street, and 2021 S Street. The Property at 1322 D Street represents one of these few contiguous parcel opportunities with potential for additional rental units or parking spaces in Downtown, thus dramatically increasing its marketability to a myriad of investors, developers and owner-users. The estimated fees to the City of Sacramento Planning Department to subdivide the 6,534 sf lot into two lots to build a second duet, for instance, would be approximately \$3,758, although there are several variables that would increase fees. In addition, there may be additional expenses for architectural construction and site plans, land survey, engineering, and building permit fees, among others.

The Property is also a stone throws away from many locally owned retailers: Sandra Dee's BBQ & Seafood, Shine Cafe, Yoga Seed, Taqueria Jalisco, 524 Mexican, Barber Blues, and Sampino's Towne Foods. Within a short walk, residents of the Duet can enjoy the performing arts at the California Musical Theatre, Sacramento Theatre Company, and Memorial Auditorium. The Property is also close to leafy places for outdoor recreation, including Muir Playground and the American River Bike Trail. To meet the growing needs of families in the downtown area, the Sacramento City Unified School District will reopen the Washington Elementary School in September 2016, as a neighborhood school with a focus on a STEAM (Science, Technology, Engineering, Art and Mathematics)

The Property provides a Buyer with the following advantages including, but not limited to:

- *Excellent location near Golden 1 Center, Downtown Commons, K Street, Convention Center, State Capitol, Amtrak Sacramento Valley Station and the Railyards redevelopment project*
- *Located in the midst of Sacramento's development renaissance*
- *Short distance to Midtown, Old Sacramento, West Sacramento and Natomas*
- *Charming historic architectural features*
- *Immediate in place income from the current tenants*
- *One contiguous 6,534 sf parcel*
- *Possible urban infill development opportunity in the backyard for parking garage or additional units, facing the alley*
- *Proximity to I-80 and I-5 freeways*
- *Pedestrian and Bike-Friendly Neighborhood*
- *Short walk to public transportation lines, parks, variety of eateries and amenities*
- *One of few Downtown multi-family building purchase opportunities*
- *One of few land purchase opportunities*



THE SUBMARKET

Prime Downtown Location

The Downtown urban core is the perfect fusion of locally-owned businesses, organic youth-infused retail and services, carefully selected national and regional retailers, the best restaurants east of the Bay Bridge, an eclectic mix of high-end demographic occupations and a range of housing all magically embedded in a landscape of unique older buildings and mature trees. Developers and investors are now highly focused on the “cool” old buildings and key infill properties within the downtown grid to further capitalize on this increasing demand. Unique historic buildings and warehouses, multi-story downtown midrise structures with impressive window lines and ceiling heights create the foundation for amazing opportunity. Large infill housing and mixed use development projects are scattered throughout the grid, indicating regional growth and an increased emphasis on inner-city living. If one looks at the history of urban development in Sacramento along with the current composition of activity, momentum and demand, the most attractive opportunities reside within the Grid, and the opportunity with versatility, fantastic location and great upside with low risk is 1322 D Street.

Of all the sub-markets within Sacramento, Downtown stands as the most desirable, boasting impressive real estate analytic numbers rivaled by few markets in Sacramento. In the Mansion Flat neighborhood, the average rental rate for a 2-bedroom apartment is \$1.50 per square foot per month, smaller units procuring approximately \$1.70 per square foot per month and larger units trend towards \$1.30 per square foot per month (\$1,400-\$1,700 for 1,100 square feet). Across all apartment floor plans in Downtown, we are currently seeing a wide range from \$1.20, up to \$2.50 per square foot, depending on the location, amenities, size, age and condition of the units.

The market is truly dictated by recently completed sale and lease transactions, though, as they are the best indication of market benchmarks. The following comparable sales are from the last 6 months.



LOCAL
SALE COMPARABLES



DUPLEX SALE COMPS:

Address:	1307 H St	Address:	2229 E St	Address:	2721 D St
Building Type:	Victorian	Building Type:	Cottage	Building Type:	Spanish Revival
Year Built:	Unknown	Year Built:	Unknown	Year Built:	1930
Construction:	Wood Frame	Construction:	Wood Frame	Construction:	Wood Frame
Stories:	2	Stories:	1	Stories:	1
Parking:	4 uncovered spaces	Parking:	1 car garage	Parking:	None
Gross Rentable sf:	1,800	Gross Rentable sf:	1,428	Gross Rentable sf:	2,150
Lot Size sf:	4,356	Lot Size sf:	3,049	Lot Size sf:	6,534
Sale Price:	\$484,000	Sale Price:	\$430,000	Sale Price:	\$475,000
Price per sf:	\$269	Price per sf:	\$301	Price per sf:	\$220

Address:	916 27th St	Address:	2431 L St	Address:	2031 18th St
Building Type:	Victorian	Building Type:	Victorian	Building Type:	1907
Year Built:	Unknown	Year Built:	Unknown	Year Built:	Dutch Colonial
Construction:	Wood Frame	Construction:	Wood Frame	Construction:	Wood Frame
Stories:	2	Stories:	2	Stories:	2
Parking:	None	Parking:	1 uncovered space	Parking:	None
Gross Rentable sf:	1,800	Gross Rentable sf:	2,560	Gross Rentable sf:	2,252
Lot Size sf:	1,307	Lot Size sf:	3,049	Lot Size sf:	3,049
Sale Price:	\$560,000	Sale Price:	\$470,000	Sale Price:	\$432,000
Price per sf:	\$311	Price per sf:	\$184	Price per sf:	\$192

Address:	2609 E St	Address:	1915 18th St	Address:	1026 F St
Building Type:	Cottage	Building Type:	Bungalow	Building Type:	Colonial
Year Built:	1926	Year Built:	1897	Year Built:	Unknown
Construction:	Wood Frame	Construction:	Wood Frame	Construction:	Wood Frame
Stories:	1	Stories:	2	Stories:	2
Parking:	1 car garage	Parking:	None	Parking:	None
Gross Rentable sf:	1,518	Gross Rentable sf:	2,080	Gross Rentable sf:	2,000
Lot Size sf:	6,534	Lot Size sf:	3,049	Lot Size sf:	3,049
Sale Price:	\$459,000	Sale Price:	\$450,000	Sale Price:	\$430,000
Price per sf:	\$302	Price per sf:	\$216	Price per sf:	\$215



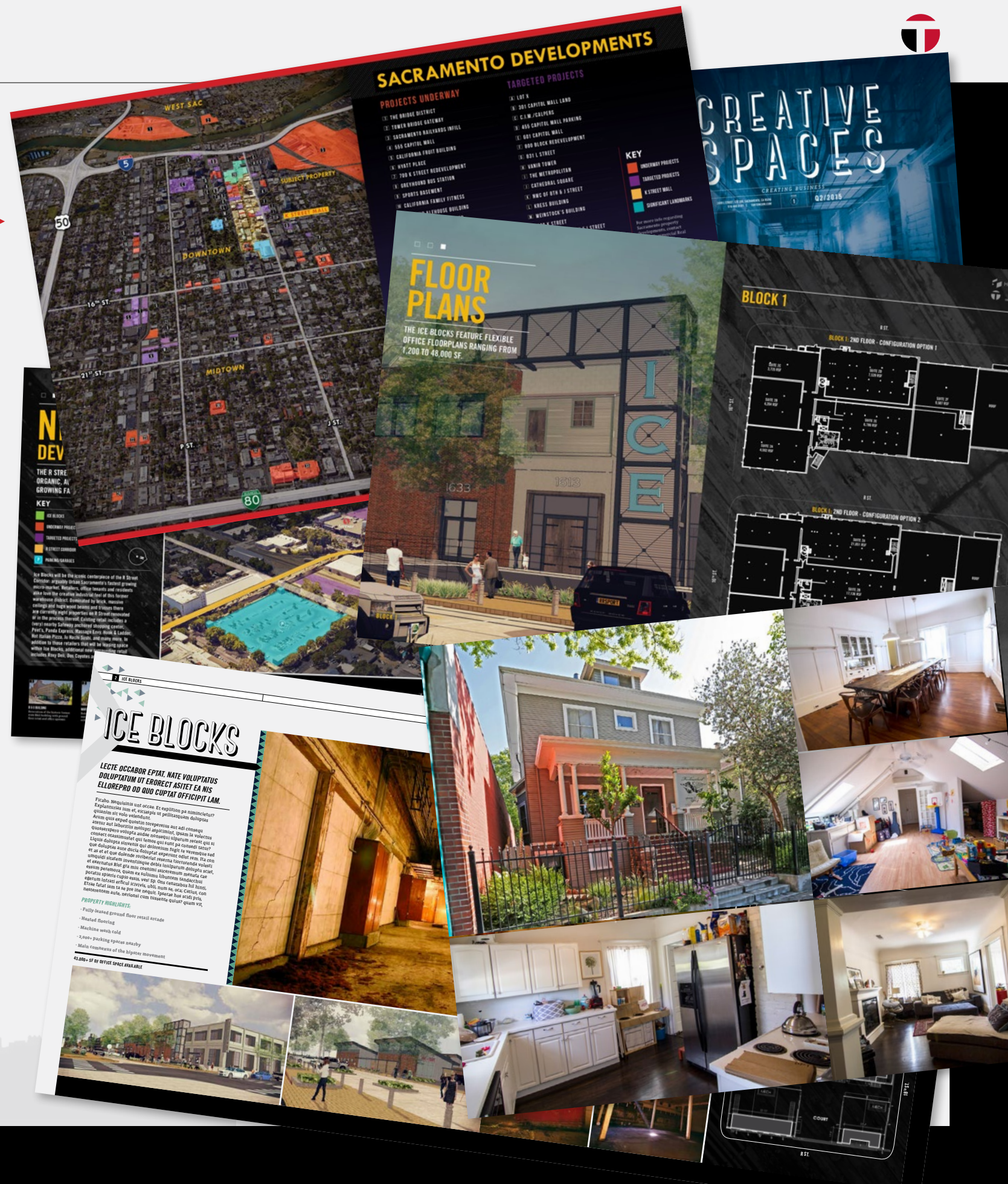
OUR SALE STRATEGY

PROACTIVE REAL ESTATE STRATEGIES

- While sales and leasing in Sacramento's Urban Grid has become Turton Commercial's "bread and butter" over the last five years, the success is credited to a variety of pro-active real estate strategies; most of which are not tied to success in any one submarket or type of building.
- The most important of the strategies is creating leverage. This is achieved through an abundance of activity, most notably tours and offers. Leveraging pending commitments, knowledge of buyers currently in the market and previous tours can spur movement from interested parties. Leverage is also created through an aggressive marketing platform alerting the brokerage community of signed leases, recent sales and new activity.
- We also embrace the synergy between listings the firm represents. Turton Commercial has established their firm as the dominant commercial real estate company in East Sacramento, Midtown and Downtown leasing and sales. As a result of our market control and breadth of listings, our firm knows every sale and leasing requirement in the market (as well as many future requirements). Quite often an unsuccessful tour at one of our listings can be parlayed into another similar property we represent. The ability to pro-actively recommend spaces and investment opportunities that may better fit a buyer's needs has proven quite effective in the Grid.
- Furthermore, our ability to financially underwrite properties, coupled with the proficiency to convey the information in relatable terms to buyers, lenders and appraisers with varying degrees of market knowledge and real estate sophistication sets the team apart from competitive brokerage houses. Maximizing our client's property value is heavily contingent upon the listing brokers understanding of the economic variables that shape an investment and how they relate to a specific building.
- Lastly, we take pride in touring prospective tenants and buyers in person. Unfortunately, leaving a key or relying on property management/current ownership to tour the building has become the norm in many brokerage houses. Barring an unforeseen circumstance, Stelmach are on-site asking questions, identifying hot buttons, responding (and hopefully providing solutions to) objections, creating leverage, ready to engage the interested party and sell the property at all tours.

MARKETING PLAN

- Our marketing platform fuses professional quality photos, contemporary layouts and comprehensive building information into attractive **user-friendly marketing brochures** strategically targeting specific users to ensure the property attracts the maximum number of potential parties. When scheduling tours, it's very common for a broker to entirely write off a building because of the lack of relevant and updated marketing materials (including underwriting information). At Turton, we understand this hurdle so our marketing not only describes in great detail the value proposition of each property, but also captures the emotional value and vision of each property. Furthermore, our highly skilled (and creative) marketing team is continually working to improve and update the marketing platform which includes all of our outsourced marketing vendors including national platforms like Property Campaign, Bigboys and more localized traditional resources such as LoopNet (platinum), CoStar, Multiple Listing Service (MLS), Trulia, Zillow and Tractor Fairbrook. In addition, our website alone receives over 3,000 views per month from prospective tenants and buyers focused virtually solely on urban core properties.
- While we do list all of our properties on national listing services to provide extensive exposure, we also have a direct marketing campaign that blasts individual properties on an on-going basis to over 40,000 business owners, decision makers and tenants in the Sacramento area. To give you an example of the quality of the marketing we provide to our clients, I've included a couple marketing brochures of current listings.
- Your Properties will receive the widest exposure through our network of commercial and residential brokers, as well as the Sacramento Association of Realtors. We will hold open houses of the Properties the first two weeks that they are on the market, in order to attract the greatest number of prospective buyers. Before the open houses, we will distribute the brochures to the surrounding residents, place signage on the street front, and advertise the open houses on the Internet, bringing even more attention to the Properties. More eyes on your Properties could translate into more offers. In addition, open houses can be more convenient for your tenants, with large numbers of buyers and agents touring the property at one time.





Turton Commercial Real Estate's core competencies include a specialized focus in development, redevelopment and disposition of value-add commercial properties in Sacramento's Urban Core. Since its inception in 2010, the firm has sold or been involved in the sale of 500,000 square feet of land and over 500,000 square feet of redevelopment and stabilized projects, not limited to the following Properties or Projects:

- **800 Block of K/L Streets**, Approximately 52,000sf of Downtown Sacramento ground up development and redevelopment project
- **1401 21st Street**, 24,695sf mixed use retail/office building currently undergoing a façade and common area renovation
- **920 - 930 K Street**, approximately 30,000 sf vacant 2 story office and retail building
- **1001 K Street**, approximately 50,000 sf vacant and partially vacant 6 story building as well as all 8 condominiums with both retail and office users
- **4719 8th Avenue**, approximately 2,600 sf fourplex with parking
- **2629 U Street**, approximately 1,800 sf triplex on a large lot
- **1725 Capitol Ave**, approximately 2,500 sf Victorian building and 3,600 sf lot with development potential
- **2009 N Street**, mixed use project involving a shipping container restaurant and residential/office Victorian building
- **21st and P Street**, mixed use portfolio sale involving approximately 3,018 sf of multifamily housing, 5,120 sf retail, and 6,400 sf parking lot
- **16th and F Land**, approximately 45,000 sf sold and planned for Multifamily Development
- **916 K Street**, approximately 6,400 sf stand-alone building
- **730 I Street**, approximately 60,000 sf vacant 3 story property
- **1411 I Street**, approximately 13,800 sf vacant one-story building; now Mike's Bikes
- **1231 I Street**, approximately 54,000 square feet of office condos
- **1517 L Street**, approximately 12,000 sf two story building vacated by CA Teachers Association and recently renovated for CA New Car Dealers Association
- **1050 20th Street**, vacant 50,000 sf two story building formerly used as State of CA Dep't of General Services warehouse; now MARRS retail/office experience
- **1811 12th St**, approximately 24,000 sf R Street warehouse being redeveloped for office/retail mixed use project
- **1724 10th Street**, approximately 40,000 sf R Street office warehouse being renovated for contemporary office/retail mixed use
- **225 30th Street**, 100% Leased East Sacramento office building
- **1930 Capitol Avenue**, approximately 25,000 sf of land slated for the Tribute Building which will be a retail/office property
- **2101 Capitol Avenue**, approximately 27,000 sf of land to relocate buildings and allow for the retail development of the Whole Foods Store at 21st and L Street
- **1900 – 1914 S Street**, approximately 13,000 sf building with planned retail conversation

Additionally, **Turton Commercial** has been hired to represent some of Sacramento's most notable developers and property owners to lease up the following projects over the last twelve months:

- **City of Sacramento, Retail Portfolio**, approximately 30,000 sf of retail space located throughout three City owned parking garages
- **Ice Blocks**, approximately 60,000 sf of redeveloped office space; new project pending Q3 2016
- **830 K Street**, approximately 44,000 sf mixed use project; owned by David Taylor Interests
- **300 Capitol Mall**, owned and managed by Hines Investments



THE ECONOMICS



2015 was a robust year for midtown and downtown rental market and property sales. Sacramento rents rose 10.7 percent year over year, the third highest jump in the nation after Portland and San Francisco.

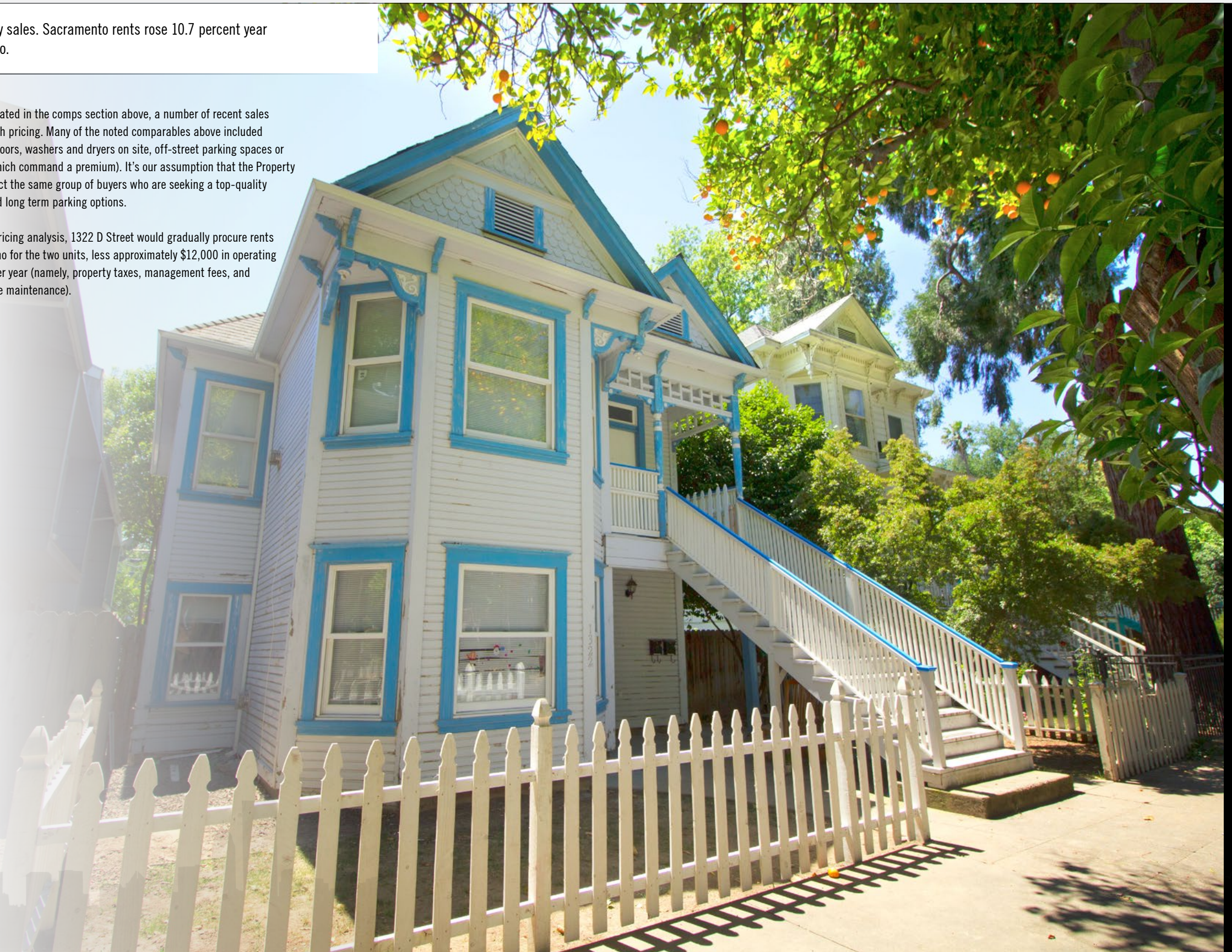
2015 was a robust year for midtown and downtown rental market and property sales. Sacramento rents rose 10.7 percent year over year, the third highest jump in the nation after Portland and San Francisco. Projections indicate area rents will grow by another 8.8 percent over 2016. Sacramento's rental rises are partially a function of the imbalance between booming renter demand and limited new supply of housing units. Typical of Sacramento, construction is coming on late. Among the top 30 markets, Sacramento's supply of new units as a share of overall stock was 0.7 percent, ranking last. Correspondingly, vacancies have hit all-time lows. The residential vacancy rate in Sacramento has dropped to a staggering 2.6 percent, which is down from the market's 2002–12 historical average of 6.2 percent.

Investors and developers are taking advantage of Sacramento's revitalization effort. Buildings and land traded hands for near-record prices, despite a dramatic decline in profit margins as a result. A host of out-of-state and bay area investors dove into the Sacramento market, which is a testament to the bullish attitude towards the city's bright future and competition in surrounding markets. Multifamily properties sales volume increased 75% year over year. Uncertainty in the US financial markets steered buyers towards stabilized real estate investments, particularly in the grid, where vacancy rates have drastically decreased over the last five years. The uncertainty, coupled with historically depressed interest rates, has produced a real estate environment nonexistent since the early to mid-2000's. It's unlikely that interest rates will increase between now and the Federal Reserve Meeting in December (after the election), however, it's difficult to predict reactionary increases beyond that point. If history is any indication, the ten-year cyclical real estate market may be nearing a peak by the close of 2016. With that being said, the commercial market should have ample time to respond to a downturn as it lags significantly behind residential market trends. However, once the market begins to slide, it will be very difficult to ever get back in front of it.

Investors and Owner-users sought more long-term stability and protection against future rate increases and upward pressure on favorable lease terms. The parties mentioned above that are looking to purchase buildings of this size and quality in this submarket are common, and if they can be identified, they are much more accepting of a lower Capitalization Rate and lenders will be more willing to lend at favorable terms. This would be your highest and best buyer and would likely purchase (and get funding for) the properties, however with the increasing demand in multi-family housing, increasing scarcity of parking, and limited inventory is driving the Capitalization rate down and a sub 4% capitalization rate would not be uncommon.

As indicated in the comps section above, a number of recent sales support such pricing. Many of the noted comparables above included hardwood floors, washers and dryers on site, off-street parking spaces or garages (which command a premium). It's our assumption that the Property would attract the same group of buyers who are seeking a top-quality location and long term parking options.

In our pricing analysis, 1322 D Street would gradually procure rents of \$1,500/mo for the two units, less approximately \$12,000 in operating expenses per year (namely, property taxes, management fees, and preventative maintenance).



DISPOSITION
STRATEGY



1 STRATEGY #1:
SELL AS-IS

VALUE LESS COST: \$545,000

CASH FLOW ANALYSIS

1322 D Street	
Gross Rentable sf:	2,200
Lot Size sf:	6,534
Vacant sf:	0
Number of parking stalls: (approximately; construction in progress)	5
Parking Income per year:	\$0
Rent per year:	\$27,600 (current)
Operating Expenses per year:	\$9,000 (approximately)
2016 Pro-Forma Net Operating Income:	\$27,000
Value Based upon 5.0% Cap Rate:	\$540,000
Value Based upon 5.5% Cap Rate:	\$490,000
Value per SF:	\$248

Based on the above comparable sales, duets in the urban core have sold for between \$184 and \$302 per square foot and a capitalization rate range of 3.7%-5.8% - that is the ratio of Net Operating Income to property asset value. Assuming the Property fall between these outlying comps, a reasonable price to expect for the Property is between \$215 and \$250 per square foot, based on the property's condition, location, and amenities. At \$215 per square foot, the Property valuation is **\$473,000** and at \$250 per square foot the valuation is **\$550,000**. From a “cash-flow” perspective, the purchase price for the Property at a 5.5% Capitalization Rate is approximately **\$500,000**, and at a 5.5% Capitalization Rate the purchase price is approximately **\$540,000**.

A sale in this price range would signify one of the highest per square foot acquisitions in this submarket. Even given the exceptional location of the building, achieving this pricing could take anywhere between 2 - 4 months , or longer, and that is assuming interest rates negligibly increase during that period. If chosen for this assignment we would take the Property (inclusive of pro forma parking income) out to market for **\$545,000**, with the expectation that an investor would underwrite the Properties based on the sales comps and offer between **\$473,000** and **\$500,000**.

Through Turton Commercial's marketing and negotiation, we would be able to achieve the highest sales price . As one contiguous property, the prospective Buyer would have different options to procure higher return and appreciation. Marketing materials would emphasize the feasibility of splitting the lot and the options of developing additional rental units and/ or more parking spaces facing the alley. This would heighten the desirability

and generate interest from the greatest number of prospective Buyers, including investors, developers and owner-occupants. The prospective investor Buyer may wish to continue operating the property as a duplex with parking spaces for their tenants or nearby office works, or the prospective developer Buyer may explore building a second single-family home, duplex or other commercial property. Another scenario would be a prospective owner-occupant Buyer who wishes to convert the duplex into a single-family home and enjoy the spacious backyard for themselves. Attracting more offers from the pool of prospective Buyers provides the opportunity to leverage the highest possible price.

This disposition strategy would maximize the benefit to the Owner. The path of least resistance, lowest risk and most profit is sale of the property “as-is” in its current condition, as a well-performing duplex on a large lot. The value is based on the immediate in-place income and the substantial income growth potential from the residential units and the parking spaces. Giving the Buyer the opportunity to split the lot, the Owner would not bear the significant costs and risks of development. This strategy would also be a significant time savings for the owner.

2 STRATEGY #2:
LOT SPLIT

VALUE LESS COST: \$570,000

CASH FLOW ANALYSIS

1322 D Street - Duplex		1322 D Street - Alley Lot	
Gross Rentable SF:	2,200	Gross Rentable SF:	0
Lot Size SF:	3,267	Lot Size SF:	3,267
Number of parking stalls:	0	Value Based upon \$30 per SF:	\$98,000
2016 Pro-Forma Net Operating Income:	\$22,000	Value Based upon \$40 per SF:	\$130,000
Value Based upon 5.0% Cap Rate:	\$455,000		
Value Based upon 5.5% Cap Rate:	\$415,000		
Value per SF:	\$209		
Combined Property			
Value Based upon 5.0% Cap Rate and \$40/SF:			\$585,000
Value Based upon 5.5% Cap Rate and \$30/SF:			\$513,000

If the large lot is split in two and sold as separate parcels, we should evaluate the property value exclusively from a potential development perspective. Based on the above comparable land sales, infill development opportunities in Downtown have sold for between \$37 and \$57 per square foot. However, all of the sales comps are lots facing a street, whereas the subject property is facing an alley. Alley facing lots are not as valuable for a variety of reasons, including increased complexity of permitting and construction. Therefore, we should adjust the price downward approximately \$10 per square foot. A reasonable price to expect for the land is between \$30 and \$40 per square foot. At \$30 per square foot, the land is worth **\$98,000** and worth **\$130,000** at \$40 per square foot. If chosen for this assignment, however, we would take the properties out to market for a combined price of roughly **\$570,000**, with the expectation that an investor would underwrite the Properties based on the costs, risks, and uncertainty of development and offer between **\$513,000** and **\$540,000**.

To split a lot for any purpose, the City of Sacramento Planning Department requires a subdivision map, site plan and design review, environmental review and fire review, among other requirements. The estimated fees to subdivide the 6,534 square foot lot into two lots to build a second 2,000 square foot duplex, for example, would be approximately **\$3,758**, although several variables may increase these fees. This does not include other expenses, like Residential Building Permits, land survey, utilities review, preservation review, construction documents, nor additional impact fees that may be assessed . These expenses, collectively known as “soft costs”, are on average 10-15% of “hard costs”, the brick-and-mortar expenses of physical construction.

The timeframe to complete a lot split may take approximately 8-12 months or more. For instance, the sale of a large lot located at 2010 F Street closed in June 2015, and the owner developer is currently still in the review process to split the property into 3 lots to be developed into 5 units on the alley. Each project varies in complexity and requires various levels of City staff review. It is strongly recommended that the Owner consult the appropriate professionals and City staff as to the feasibility, cost and time required for any of these projects.

DISPOSITION
STRATEGY

3 STRATEGY #3:
LOT SPLIT, PLANS, & PERMITS

VALUE LESS COST: \$610,000

CASH FLOW ANALYSIS

1322 D Street - Duplex		1322 D Street - Alley Lot	
Gross Rentable SF:	2,200	Gross Rentable SF:	0
Lot Size SF:	3,267	Lot Size SF:	3,267
Number of parking stalls:	0	Value Based upon \$30 per SF:	\$98,000
		Value Based upon \$40 per SF:	\$130,000
2016 Pro-Forma Net Operating Income:	\$22,000		
Value Based upon 5.0% Cap Rate:	\$455,000		
Value Based upon 5.5% Cap Rate:	\$415,000		
Value per SF:	\$209		

Combined Property	
Value Based upon 5.0% Cap Rate and \$40/SF with plans and permits:	\$625,000
Value Based upon 5.5% Cap Rate and \$30/SF with plans and permits:	\$555,000

As in the analysis above, if the large lot is split in two, site plans and architectural plans are drawn, and building permits are pulled, we should evaluate the property value exclusively from a construction-ready development perspective.

The property is zoned R-3A. According to Sacramento City Code, the maximum density is 36 dwelling units per net acre. The maximum height is 35 feet. The maximum lot coverage is 50%. The minimum lot width is 20 feet, minimum lot depth is 80 feet, and minimum lot size is 2,000 square feet. So, for example, if the lot split results in two 3,267 square foot lots, the maximum number of dwelling units that may be constructed on the new lot is 2 units, and the maximum footprint of the structure is 1,633 square feet. However, there are several other regulations, such as setback requirements, that must be adhered to. The Owner may apply for deviations, but it may require extended review by City staff and increase the costs of the project.

In addition to the previously mentioned “soft costs,” other expenses that should be accounted for include architecture and engineering fees, permits, taxes, building maintenance, insurance, security, and other ongoing fees needed for the property’s upkeep. For the construction of a 2,000-square foot duplex with a 400-square foot garage, the estimated fees to the City of Sacramento for Residential Building Permits \$26,144.56 and the Sacramento City Unified School District Impact Fee would be \$6,720. We should expect the total soft costs to be between \$72,000 and \$80,000, approximately. These costs can vary greatly, depending on the architectural

design, level of governmental review and other variables. The additional value of architectural plans for a small development project is typically \$30,000 to \$40,000. If chosen for this assignment, we would take the properties out to market, with the plans and permits for construction included in the sale, for roughly \$610,000, with the expectation that prospective Buyers may wish to build a completely different project on the site, and the plans and permits would not be of any value. There is a very marginal likelihood the value of the properties would increase more than the soft costs.

A construction-ready project could be more marketable to a developer; however, there are several obstacles to success with such a disposition strategy. The pool of prospective Buyers would be significantly reduced. Experienced infill developers who have completed similar projects may be interested in the properties, but most investors would not be willing to pay such a premium. The time required to sell the property would be much longer: possibly more than a year to prepare the property for construction and an additional 6-8 months to find a ready, willing and able Buyer. Taking these factors into consideration, the sales price may fall considerably and the soft costs of preparing the property for construction may not be recouped.



4 STRATEGY #4:
BUILD

VALUE LESS COST: \$450,000

ANALYSIS

The “hard costs” of development involve the actual physical construction of a development: grading, excavation of a site, the materials used, landscaping, and carpentry. Hard costs of infill development in Downtown Sacramento are approximately \$200 per square foot. The costs can vary greatly, depending on the architectures, engineering, quality of materials, labor costs, soil conditions and other factors. For the construction of a 2,000-square foot duplex with a 400-square foot garage, the

hard costs could be \$480,000 to \$525,000 or more. Total costs of the development project could be \$552,000 to \$605,000, not including debt service or opportunity costs. Undertaking a development project requires a knowledgeable contractor, an architect, a team of subcontractors, and a lender to provide construction financing. The average length of time to complete construction of a duplex, after splitting the lot and obtaining permits, is 14-16 months .

CONCLUSION

	SUGGESTED PLAN			
	Disposition Strategy 1: Sell As-Is	Disposition Strategy 2: Lot Split	Disposition Strategy 3: Lot Split, Plans and Permits	Disposition Strategy 4: Build
Cost (approx.)	N/A	\$4,000	\$80,000	\$600,000
Time to Market (approx.)	N/A	8-12 months	10-16 months	18 months - 2+ years
Property Value	\$545,000	\$570,000	\$610,000	\$1,050,000
Value Less Cost	\$545,000	\$566,000	\$530,000	\$450,000

Based on the many variables and the firm’s experience in the Downtown Sacramento market, my recommendation is to sell the property as-is, or to split the lot and sell the two parcels together. The benefits to the Owner are savings of time and cost to prepare the property for sale, minimized risk exposure, and maximized likelihood of closing the transaction. The additional value of the lot split, plans and permits is uncertain, and in fact, there may be no additional value to many prospective Buyers. The first two strategies will generate the most amount of interest among the greatest number of prospective Buyers, and therefore, will achieve the highest net proceeds of the sale for the Owner.



Thank you for your time,

Patrick Stelmach, Director
916.817.9148

We obtained the information above from sources we believe to be reliable. However, we have not verified its accuracy and make no guarantee, warranty or representation about it. It is submitted subject to the possibility of errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice. We include projections, opinions, assumptions or estimates for example only, and they may not represent current or future performance of the property. You and your tax and legal advisors should conduct your own investigation of the property and transaction.



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