

WEST SIDE STORIES



PROPOSED DEVELOPMENT FOR FIRST AND WASHINGTON

Graciela Cruz (MBA) • Antonio Uzcategui (MEng) • Chris Woidka (MBA) • Xiou Li (MUD)

University of Michigan • UP 517/BA 517

December 9, 2005

December 9, 2005

Mr. Peter Allen, President
Peter Allen & Associates
944 North Main St.
Ann Arbor, MI 48104

Dear Peter:

We, the members of GAC & X, LLC, take great honor in presenting to you at this time our development proposal for the site of the old parking structure at First Street and Washington Street in Ann Arbor, Michigan—a multi-use development which shall be known as West Side Stories.

Based upon extensive market research, economic and financial analysis, and in consideration of the interests of all key stakeholders, West Side Stories has been designed to provide answers to some of downtown Ann Arbor's most pressing needs at this point in time. The appeal of a development such as West Side Stories is that it not only transforms a historically unprofitable use of land into a highly profitable one, but it does so in a way that beautifies and enhances both the site itself and the areas around it. Though the development will likely face minor opposition, (as well any new development,) we are confident that West Side Stories will provide a sustainable source of value that will augment the quality of life for individuals and the success potential for local businesses, creating a positive impact that far outweighs any detracting arguments.

We want to express our appreciation to you, to the City of Ann Arbor, and to the Downtown Development Authority, for the opportunity to take part in this project. We hope our findings may be substantially used to advance discussion on the tremendous possibilities open to the site at First and Washington, and that West Side Stories may soon become an anchor to downtown Ann Arbor.

Warmest regards,

The GAC & X, LLC Executive Team

Graciela Cruz, MBA
Market Analysis, Stakeholder Liaison

Antonio Uzcategui, MEng
Construction & Design Analysis

Chris Woidka, MBA
Financial Analysis, Report Editor

Xiou Li, MUD
Architecture

TABLE OF CONTENTS

| | |
|--|----|
| EXECUTIVE SUMMARY | 1 |
| INTRODUCTION | 3 |
| The City | 3 |
| The Site | 3 |
| SITE ANALYSIS | 4 |
| Introduction..... | 4 |
| Economic Considerations | 4 |
| Residential vs. Retail vs. Office..... | 4 |
| Current State of the Market..... | 4 |
| Appropriate Mix for 1 st and Washington Site..... | 4 |
| Why Office Space Is Unnecessary..... | 5 |
| Why Mixed Use? | 6 |
| Current Mixed Use Buildings in Ann Arbor..... | 7 |
| Ashley Mews Lofts | 7 |
| Liberty Lofts | 8 |
| Stakeholder Analysis | 8 |
| Surrounding Residential Property Customers..... | 8 |
| Surrounding Retail Property Customers | 9 |
| Surrounding Retail/Businesses | 9 |
| Surrounding Landowners (Retail, Residential, Renters, Leasers) | 9 |
| Government (City of Ann Arbor, DDA, etc.)..... | 9 |
| Local vs. National Chains | 10 |
| Parking Issues | 11 |
| Affordable Housing | 11 |
| Environmental Issues..... | 12 |
| Building Demolition | 12 |
| “Green” Considerations | 13 |
| Noise Pollution..... | 13 |
| Zoning..... | 14 |
| Political and Legal Issues..... | 14 |

Marketing Plan for West Side Stories..... 15
 Residential Customers 15
 Retail Customers 16
ARCHITECTURE & ENGINEERING..... 17
 Introduction..... 17
 Floor Plans 17
 Underground 17
 First Floor..... 17
 Second Floor 18
 Third Floor 19
 Fourth Floor – Eight Floor 19
 Construction Details..... 20
 Demolition 20
 Details of Construction Process & Materials..... 20
 Materials 21
 Exterior Finishes 21
 General Contractor Selection..... 21
 Construction Timeline 22
FINANCIAL ANALYSIS 23
 Introduction..... 23
 Financial Goals 23
 Equity and Financing 23
 Project Costs 24
 Forecasted Revenues..... 25
 Retail 25
 Residential..... 25
 Parking Spaces 26
 Sensitivity Analysis 27
 Financial Conclusion 27
ACKNOWLEDGEMENTS..... 28
SOURCES..... 29

EXECUTIVE SUMMARY

Introduction

Ann Arbor has an incredible opportunity to increase the value and vitality of its downtown, based upon what it decides to do with the empty lot at the corner of First Street and Washington Street. Key stakeholders have debated for years over how to most effectively use this piece of land on the western edge of downtown—whether to dedicate it to retail, office space, or residence, or to some combination of the three, or to rededicate it as a primary source of parking in the city. Based upon extensive analysis and a keen eye towards the future, we are proposing a mixed-use development called West Side Stories (WSS) that would address many of the goals and concerns voiced by some of Ann Arbor’s key constituents. More importantly, WSS would piece together Ann Arbor’s entertainment district, enhancing the value of businesses and residences in surrounding properties, and providing an affordable and exciting place for people to live, work, and play.

Site Analysis

1st and Washington has been the site of a multi-deck parking structure since its creation in 1948. Over years of damage and disrepair, the structure has become more costly to maintain than what it’s worth; as a result, the structure was closed on October 1 of this year for demolition, in hopes that it would soon be replaced by a more profitable and contributory development. The site is currently sandwiched between a row of night clubs to the west and other retail outlets and restaurants to the east, with office space and a surface parking lot completing the surroundings. Its current state of disuse has

created a division between the club scene and the rest of downtown, causing the clubs to suffer, and detracting from that part of town as a viable source of leisure and entertainment.

WSS would provide a link between both sections of the entertainment district, creating a veritable gateway into the downtown district from the roads to the west. It will consist of two levels of retail, primarily places people can go to relax or have fun: a day spa, a karaoke bar, a restaurant, a coffee shop, all of which would increase the daytime pedestrian traffic in the area as well as keeping the nights active in the area. In the space to the east of the site, which will be acquired from Dax Ponce de Leon in a partnership agreement, we propose a multi-story retail edifice with a theater on the ground floor and a restaurant above the theater.

Above these proposed retail outlets will be three towers ranging from four stories to eight stories in additional height, containing 88 small- to mid-size two- and three-bedroom apartments, 15% of which will be dedicated to affordable housing. These apartments will be classy, functional, and aesthetically pleasing, contributing to the area’s population density without overwhelming or overshadowing the surrounding businesses and homes. Within the main site, we have incorporated two hidden parking lots for residents, business owners, and the public, so as to preserve accessibility to the site. At the foot of each of the three towers will be a landscaped terrace or walkway for pedestrians wanting to access Ashley Street by foot from the apartments.

Architectural Design

The development is expected to begin in the spring, with the foundation being completed by the end of summer, after which construction will begin immediately on the underground parking as well as the retail section. We hope to advance the development’s expected cash flows by making the retail available for use before the residential towers have been completed. Entire construction is expected to be completed within 19 months of being started.

By dividing the living space into three towers, we have managed to make excellent use of the air space above our site without creating an imposing single building (and its accompanying shadow) for neighbors to have to deal with. We are taking advantage of the site’s change in elevation by varying the vertical size of the buildings, helping the entire development to fit in well with multi-story buildings in downtown areas to the east of the site. We also plan to use

materials that will create an appearance of class and modern refinement, consistent with architecture in the city’s nearby historical district.

Financial Analysis

Our preliminary estimates show the finished development to have a value of about \$43.8 million, after incurring costs of about \$35.3 million (including Ponce de Leon partnership expenses of 6%.) This would provide a very realistic margin of 19.4% within a range of 8.5% under pessimistic conditions and 29.2% under optimistic conditions. We expect to sell our interest in the development upon completion of the buildings.

The development will be funded through a combination of 80% loans, grants and subsidies (for affordable housing, ground-floor retail, high density residence, green building considerations, etc.), and 20% equity from outside investors.

BEFORE



1st & Washington, pre-demolition (looking south-east)

AFTER



West Side Stories, basic proposal

INTRODUCTION

The City

Ann Arbor has long been recognized as one of the most appealing places to live, work, or locate your business, not only in the State but in the entire country. (Ann Arbor was the sixth best city in America to live in based upon a recent nationally-published book;¹ Forbes ranked it the 20th best place in the country for business.²) Part of the reason why Ann Arbor is consistently so highly ranked is its ability to maintain a good balance between providing residence to so many people from so many different places and keeping an identity as a small, intimate town with a lot to offer.



Ann Arbor from above

This small-town feel is threatened in part by urban sprawl, as people who are attracted to Ann Arbor are locating themselves on the fringes of the city rather than at its heart in downtown. Additionally, relative to other areas of the Mid-west, Ann Arbor's residential pool generally has both high intellectual acumen and a lot of money to spend, both of which are keys to attracting successful businesses that will continue to enhance Ann Arbor's downtown offering.

The Site

At the corner of First Street and Washington Street is an old parking structure in the process of being demolished, though the City has not yet decided how to replace it. Ann Arbor has an incredible opportunity with this site to increase the value and vitality of its downtown. On October 27, 2005, the City issued a

Request For Proposal for Sale and Redevelopment of City-Owned Property Located at First and Washington Streets, in which it relayed the following vision (abridged):

- The design is an appropriate transitional area between downtown and the nearby historic residential neighborhood
- Pedestrian friendly building that relates well to the street
- Help activate the area
- Housing for a diversity of people
- Affordable housing for workers earning 60% of area AMI
- Provide up to 200 public parking spaces, either below ground or otherwise hidden from view
- Improves functionality of the alley, which may include straightening it
- Development of about six stories, with a max. of eight stories at any given point.

We would like to propose West Side Stories (WSS), a development that will address each of these objectives, as well as many interests and concerns of local residents, employees, and business owners, as ascertained while canvassing the area. We believe WSS will revitalize business in the west side of downtown, create cohesion in the entertainment district, and encourage an influx of living, shopping, working, and playing in downtown Ann Arbor that will ensure that the City continues being regarded as one of the great cities in America.



Sign on site parking structure

SITE ANALYSIS

Introduction

The development of First and Washington is at a critical point right now, as the City continues analyzing new proposals, while the parking structure is already being demolished. Based upon our discussions with residents and business owners in the area, a lot of people are very opinionated about what happens to this site, because it touches not only downtown but the nearby historic district of Ann Arbor. It also represents an opportunity for Ann Arbor to break new ground with the development's building height, its use of affordable housing, green roof considerations, and the value introduced with mixed-use facilities.

Economic Considerations

Ann Arbor's strong, balanced economic climate has consistently kept the city's unemployment rates at a relatively low level and spending at a relatively high one. A potential threat to this is the extreme volatility of the current economic condition of the State, where several major companies have been threatened with bankruptcy recently. Fortunately, Ann Arbor has managed to remain mostly isolated from this downturn and should thrive moving forward.

Residential vs. Retail vs. Office

A key element of any proposed development for this site is finding the proper balance between residential space, retail space, and office space. Such a balance should take into consideration surrounding businesses as well as what is most needed right now

in downtown. It may not make sense to allocate a building full of office space in an area known for its entertainment offering.

Current State of the Market

Ann Arbor is recognized as having one of the top retail markets in the State, if not the entire country. However, the accessibility of its shopping outlets took a hit with the opening of Briarwood Mall in the 70's. Lately the convenience and appeal of downtown shopping has begun to gain prominence as more people have turned to shopping as a necessity rather than simply a leisure activity.³ Nation-wide, locating new retail downtown has become the new trend—one which we believe will reinvigorate downtowns, making them more attractive places to live, and one which should be sustainable in the long run as people turn to more economical ways to travel.



Appropriate Mix for 1st and Washington Site

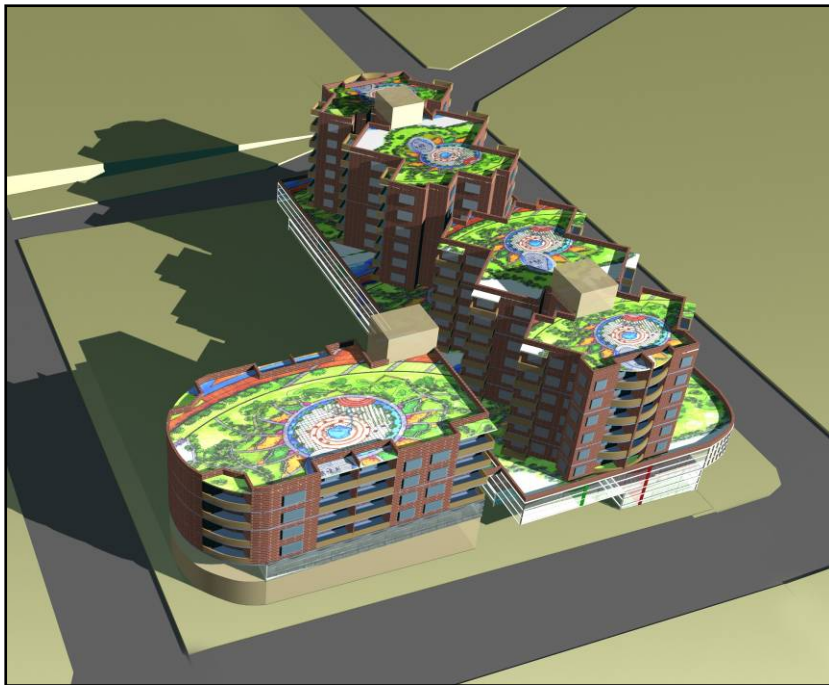
For a dilapidated parking built in the 1940s and soon to be demolished, any new development would increase the site's use. But what is an appropriate mix of use for the land? How can we make the most effective use of the old 1st and Washington lot to encourage smart growth in downtown Ann Arbor?

Several of the DDA's goals for development can be addressed by what we do with this site. Specifically, the DDA would like to:

1. Strengthen the struggling retail corridor along Ashley
2. Increase the density of residents living downtown
3. Develop *up* rather than *out*

- 4. Create housing that is affordable to individuals earning 60% to 80% of the annual median income⁴

We believe we can achieve all of these goals and do so in a financially favorable manner by creating a mix of both retail and residential space on the site. The first two floors of WSS will be dedicated to retail that will connect current entertainment sites on First Street with other retail and leisure offerings on the east side of the site. This new retail will also extend out to Ashley through redevelopment of some of the office space currently in existence directly east of our lot, further increasing Ashley Street’s foot traffic.



West Side Stories View from the North East

Above the two floors of retail will be several high rises of apartments, a significant number of which will be designated as affordable housing. As the DDA and stakeholders from the City have recently begun to look more favorably on buildings in excess of six floors, we anticipate our building reaching a maximum of eight stories at any given point, including six floors of modern residences that will invite more people to consider downtown as a viable location to live.

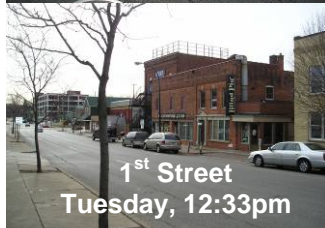
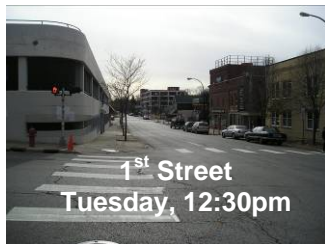
This combination of new residences and retail in mixed-use development will stimulate all aspects of downtown living by offering more opportunities for people to be within walking distance of the places they work, shop, or go for entertainment.

Why Office Space Is Unnecessary

Though office vacancy rates in Ann Arbor remain more positive than the national average (13.0% vs. 16.6% respectively,) they have been increasing consistently over recent years and are presently higher than has been expected, considering only 4,000 square feet of new office space has been added to downtown Ann Arbor since 2003.⁵ In light of further expected economic downturns throughout the State, local vacancy rates are expected to continue their climb for the foreseeable future.

We believe Washtenaw County and Ann Arbor in particular will weather the current economic climate and recover more rapidly than most of Michigan, primarily due to proactive efforts currently being made to plan and design for the future. Demand for office space downtown will increase once again, especially as Ann Arbor continues to promote a healthy balance of both retail and residential development within walking distance of the rest of downtown.

However, due to recent trends, we believe it to be more of a pressing need to focus our attention upon improving the quality of *life* in Ann Arbor—through additional living and leisure spaces, both of which are already in high demand. Office space should be considered and incorporated into future development plans, but the opportunity to fill this office space is uncertain at the present time.

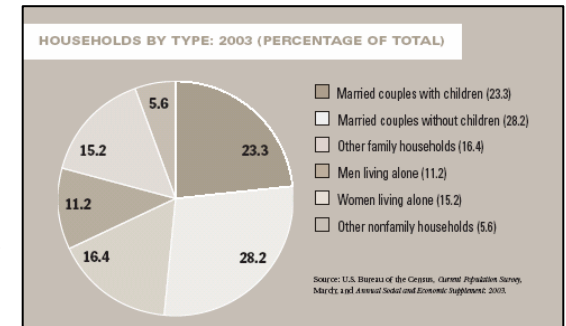


The site at 1st and Washington is particularly adaptable to new residence and retail sites rather than office space due to its proximity to downtown’s entertainment offerings. The clubs on First Street and restaurants and clubs on Ashley already draw the foot traffic of people looking to spend money and have a good time, making additional retail stores a more attractive and lucrative endeavor. The site will also act as a bridge between the club scene and the rest of downtown—retail space will drastically increase the effectiveness of this bridge, whereas office space may actually re-enforce the division between the two entertainment areas.

Why Mixed Use?

To understand why mixed use developments are the wave of the future in the United States, we must first look at America’s demographic make-up and its residential and entertainment needs. Approximately 43 million new residents will inhabit the United States population between now and 2020.⁶ These new

residents will be unlike any citizen of the past. Additionally, the demographic make-up of these residents is radically different. No longer will the American household consist of the traditional two parents and children. Households in the United States now mostly consist of single-parent households, single-person households, empty nesters, and couples without children. As understandable, this new burgeoning population has radically different real estate needs and interests than their predecessors.⁷ According to the Urban Land Institute on Higher-Density Development, these families are “more likely to choose higher-density housing in mixed-density communities that offer vibrant neighborhoods over single-family houses far from the community core.”⁸



In addition to the reasons mentioned above, there are social, economic, environmental, and health reasons why mixed-use higher-density living is a more viable solution than the current trend toward suburban sprawl. First, our communities pay a social cost in living, working, and playing in distinct communities. The distance between work and home forces the person to spend less time connecting with the surrounding community. As a consequence, the individual does not significantly contribute to the community.

Second, the economic costs of suburban sprawl are also significant. The average citizen spends approximately 30% of her income on car payments, gas, car maintenance, car repairs,

and insurance. Additionally, a large portion of our tax dollars fund the construction of new roads. These costs inevitably detract from the monies which would otherwise be spent on education, welfare, etc.

Next, there are substantial environmental issues which have been created by suburban sprawl. Increased gas emissions have already started depleting the ozone layer. Also, the water and land are adversely affected by automobile pollution.

Lastly, a person's health is affected by commuting long distances. The average American man spends 81 minutes driving every day and women average 63 minutes. Surveys show that the time spent driving has been consistently increasing every year.⁹ In driving such long distances, a person is more susceptible to "stressful, extremely unhealthy (from the constant toxic exhaust fumes we breathe daily), and very deadly (from the endless car accidents)"¹⁰ conditions.

For these and other reasons, the up-and-coming concept of "new urbanism" has gained much popularity. According to NewUrbanism.org,

*New urbanism promotes the creation and restoration of diverse, walkable, compact, vibrant, mixed-use communities composed of the same components as conventional development, but assembled in a more integrated fashion, in the form of complete communities.*¹¹



**New Urbanism:
Celebration!, Florida**

Current Mixed Use Buildings in Ann Arbor

While there is room for improvement, there are several great examples of successful mixed use development in Ann Arbor. Additionally, the City of Ann Arbor, as mentioned in the RFP, has a vision to increase downtown residential density and diversity and to activate the area which is currently deserted during the day.¹²

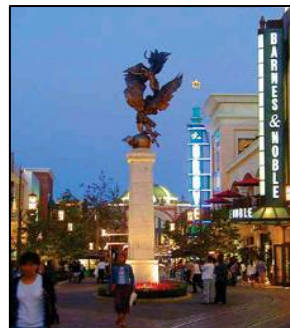
Examples of mixed use building within Ann Arbor can be found throughout the city.

Ashley Mews Lofts

Ashley Mews Lofts, located on 414 South Main Street, is a 9-story mixed use development that contains retail, office, and residential space along with underground parking. Layout includes 31 townhouses, 16 flats, 3-level 120 car garage, 14,000 square foot main floor with office lobby, separate residential lobby and retail space, 7 floors of office space at 16,000 square feet each, and 8 duplex penthouse apartments ranging in size from 1,500 square feet to 3,500 square feet each with a private terrace.



Ashley Mews Lofts



**New Urbanism:
The Grove, Los Angeles**

Liberty Lofts

Liberty Lofts on 305 West Liberty Street will be a 5-story mixed used development that will contain retail and 68 units of residential. The current price is \$250,000 to \$550,000 for units ranging from 844 square feet to 2337 square feet. As of today, Liberty Lofts has successfully sold 41 units since it opened operations in the middle of March.



Liberty Lofts

Stakeholder Analysis

Before beginning any real estate development project, both public and private stakeholders should be taken into consideration to thoroughly understand their unique and relevant points of view. Doing so will address the stakeholders' concerns early when solutions are more convenient and economical. Addressing stakeholders' concerns will give the developer greater insight into the needs of the community and create property that is more relevant to the area.

Our research of the WSS site yielded the following people as our primary stakeholders:

- Surrounding residential property customers
- Surrounding retail property customers
- Surrounding retail/businesses
- Surrounding landowners
- Government (City of Ann Arbor, DDA, etc)

Understanding these stakeholders as our parameters, we conducted primary and secondary research which served as the

guiding principals in our development of the site as well as retail space. The following is a list of the stakeholders which shaped our development:

- Downtown Ann Arbor home owners
- Downtown Ann Arbor retail customers
- Millennium Club
- Cavern Club
- Blind Pig
- Dax Ponce De Leon, PMA Consultants LLC
- Mark Codash, Downtown Home and Garden
- Three Chairs Company
- Lisa Bee, Sweetwaters
- Neighborhood businesses who rely on parking spaces on site
- Ann Arbor Planning Commission
- City of Ann Arbor
- Downtown Development Authority (DDA)



Clubs on First

From the stakeholder interviews, we were able to recognize the following concerns/themes:

Surrounding Residential Property Customers

- People's primary concern with living downtown was noise pollution.
- Secondary concerns were affordability, parking, lack of a yard for children, and no place to purchase groceries nearby among others.

Surrounding Retail Property Customers

- Potential purchasers of the WSS retail property want attractive locales at cheap prices.
- Retailers want to be situated next to businesses that have similar clientele pools to jointly attract customers.
- Retail locales should vary in size and style to accommodate both local and national retailers.

Surrounding Retail/Businesses

- Owners of Millennium Club and Cavern Club agreed that any retail property would be welcomed since the land is currently vacant and attracts no day or night foot traffic.
- Retailers want to be next to businesses with similar clientele pools to jointly attract potential customers.
- Little to no duplication of retailer types.
- Size of development should be limited to 10 stories in height.
- Parking topic of dissent, some believe current amount is sufficient and others believe more are needed.
- Good mix of local and national retailers open in the day and night.
- Range of residential housing options is necessary to meet the needs of all singles and couples in the area.
- Condominiums would be a great asset to the neighborhood to encourage people to move downtown, build a better corridor, and create a better connection to the entertainment district.
- Straightening out of the current alley would be very attractive and beneficial to the neighborhood and surrounding businesses.
- Attracting a variety of income levels to the neighborhood through incorporating affordable housing is important to unify neighborhood.



Ann Arbor, Old West Side

- Sense of urgency was very evident. Many are frustrated that the area has remained uninhabited for so long.

Surrounding Landowners (Retail, Residential, Renters, Leasers)

- NIMBY issues around height of building, max desired is 7-8 stories.
- Concerned about aesthetic appeal and how it relates to the neighborhood.
- Tenants of buildings also a concern to surrounding residents – do not want mostly students.
- Divergent views on affordable housing, some saw it as an asset others as a detriment to the neighborhood.
- Sense of urgency was very evident. Frustrated that area has remained uninhabited for so long.

Government (City of Ann Arbor, DDA, etc.)

- Increase downtown residential density and diversity.
- Replace public parking spaces on this site. Some believe it is unnecessary to replace all parking on this site.
- Maximize financial return to City for sale of land.
- Maximize TIF revenue to DDA for redevelopment of site.
- Design appropriate in this transitional area on edge of downtown and nearby historic residential neighborhood.
- Pedestrian friendly building that relates well to street.
- Project to help activate area.
- Provides housing for a diversity of people, including



Ann Arbor City Hall

some units affordable to downtown workers earning 60% of area AMI.

- Improves the functionality of the alley, which may include straightening the alley.
- Approximately 6 stories, with a maximum of 8 stories at any given point.¹³

Local vs. National Chains

The Ann Arbor retail landscape has evolved significantly over the last 40 years. In the 1960s and 1970s the city was founded on many cooperative enterprises¹⁴. While most did not survive the influx of mass national and international retailers, some such as People’s Food Co-Op and the Inter-Cooperative Council at the University of Michigan survived and still thrive today. Today, many new up and coming local retailers such as Sweetwaters, Three Chairs Company, and Zingerman’s Deli have entered and prospered in the Ann Arbor retail market.



Zingerman’s Deli

While Ann Arbor has a history of local cooperative retail endeavors, many national chains have also flourished. Briarwood Mall, opened in the 1970s, has attracted several national retailers. Additionally, national chains such as Urban Outfitters, Ben & Jerry’s, and Starbucks have been attracted to Ann Arbor’s quirky and affluent downtown clientele.

In developing our site, we considered Ann Arbor’s history of retail as well as taking an objective look at the pros and cons to attracting national chains. The following is the list of pros and cons to national chain retail:

Pros

- Large retailers are able to leverage their size to benefit from economies of scale and offer product and services at reduced prices from smaller companies.
- Offer standardized products and services people – people can rely on getting the same meal they know and love at every McDonald’s across the country.
- Have vested interest and financial means to invest in the area.

Cons

- Products are not always as fresh or affordable as if they had been purchased from local retailers. The average meal travels 1,500 miles before it reaches your plate¹⁵.
- Does not offer unique and specialized products that cater to the diverse wants of a diverse community.
- Harms the environment. Air is polluted and natural resources are wasted because special packaging is needed to transport products over long distances.
- Hurts local farmers and businesses. According to the USDA, the U.S. has lost 4.7 million farms since 1935¹⁶.

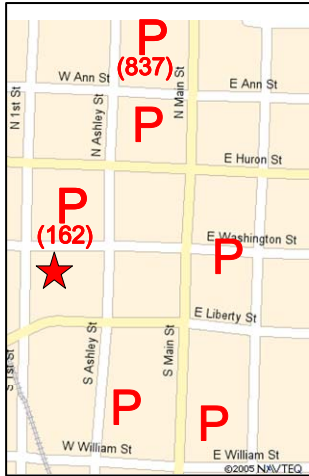


Kroger’s

Because both local retailers and national chains play such an integral role in the Ann Arbor retail landscape, we have represented both in the WSS retail selection. Both types of retail will provide a balance of selection as well as appeal to two different types of consumers – the customer seeking a familiar, comfortable experience and the customer seeking unique, one-of-a-kind products and services.

Parking Issues

As in all downtown metropolitan areas, Ann Arbor has several downtown parking needs which WSS addresses in its construction. The vibrant retail and residential spaces in the Downtown Ann Arbor area have created an overwhelming need for accessible and affordable parking spaces. Although several residents surveyed referred to parking scarcity in this area as less urgent than other issues, we have chosen to incorporate 122



**Ann Arbor Parking (P)
Near WSS (Red Star)**

The draft of the RFP for the 1st and Washington site currently states that the site should provide “up to 200 parking spaces, either constructed below ground or otherwise hidden from view”.¹⁷ As noted, although the parking incorporated into the design for WSS is hidden from the street, it falls short of the requested 200 spaces. However, a deep dive in the RFP and conversations with Jennifer Hall, member of the City of Ann Arbor Planning Commission, reveal that the parcel of land is “located within a parking-exempt district.”¹⁸ This means that there is no minimum number of parking spaces the developer of

parking spaces in the construction of WSS to satisfy the needs of the existing community and the future residents. Of these spaces, 38 will be offered to WSS residents who wish to purchase or lease a designated spot for \$100/month (for an estimated value per space of \$16,000), thus accommodating prospective tenants who require a parking space. The remaining 84 spaces will be designated as public parking and sold to the DDA for \$35,000 each. (Refer to the Financial Analysis for a complete analysis of sources of revenue.)

this site has to provide to meet city regulations. Additionally, the surface parking lot across the street provides 162 parking spaces and the parking structure two blocks away provides 837 parking spaces. Monthly parking permits for surface parking can be purchased for \$80/month, although this does not guarantee that a spot will necessarily be available at any given time.

Affordable Housing

One of the primary goals expressed by the DDA and the City has been the need to provide affordable housing for more Ann Arbor residents. Ann Arbor states that it “recognizes a growing need for a greater supply of lower-cost housing and wishes to preserve the diverse economic character of the community.”¹⁹ It was for this reason that the city created the Affordable Housing Task Force Plan, which has provided subsidies of Federal HOME funds and Ann Arbor Housing Trust Funds for new developments dedicated to affordable housing in order to encourage relocation of commuters into downtown Ann Arbor. Current affordable housing units in Ann Arbor include Ashley Mews, Northside Commons, Stone School Townhomes, Corner House Lofts, North Quad and Broadway Village.²⁰

We recognize the importance of including affordable housing units in WSS for several reasons:

- Having mixed-income residents will help to establish a “sense of place” for the citizens of Ann Arbor, as WSS will welcome new residents with open arms rather than being seen as exclusionary.
- Units will fill up much more quickly than otherwise due to lower costs for certain units and the increased perception that WSS units are in demand, reducing costs for sales and marketing. This will also be welcomed by any new shops that are part of our new development.

- WSS will have the cooperation of the DDA and the City of Ann Arbor, allowing the development to proceed smoothly and with fewer hindrances from some of the project's most important stakeholders. City departments have expressed the intention to give priority review of site plans for projects with affordable housing components.²¹
- Increasing the economic diversity of the residents at WSS will enhance the living experience of everyone living there.

In order to earn subsidies from the City for building affordable housing, the units for sale must be offered to households that are at or below 80% of the area's annual medium income (AMI).²² For Ann Arbor in 2005, this amounts to \$92,800 for a 2-bedroom home, which is also the maximum sales price established by the DDA.²³ However, the City has said elsewhere that it would like to ensure that this particular site contains affordable housing for individuals making only 60% of Ann Arbor's AMI.²⁴ Based upon information that a two-person family making 60% of AMI can expect to have income of \$37,440,²⁵ we have established a maximum sales price of \$74,880 for our affordable units.

Another option is to charge the market price for all housing units and offer a "cash-in-lieu contribution" in the amount of \$60,000 for each required unit, which amounts to 10% of the 88 units we are offering at WSS.²⁶ This amounts to a cash contribution of \$540,000. Although this is considerably less than the difference in total sales revenues we would receive from these nine units, we do not believe the difference is large enough to justify abandoning affordable housing, which would be contrary to the direction Ann Arbor is currently headed.

One important aspect of affordable housing that we address in our design of WSS is the opportunity to have a community of

truly mixed-income families. The three residential towers at WSS will be made up of five different floor plans, mostly two-bedroom apartments ranging from 721 ft² to 1,084 ft². Although it would be more economical to designate the smaller floor plans as affordable, we believe this to conflict with the primary purpose of affordable housing—to welcome everyone rather than just those with money. We have chosen instead to spread our distribution of affordable units across all floor plans, so as to achieve an economic mix throughout the three towers.

We have also chosen to designate 15% of our housing units as affordable, specified by the PUD process, rather than the 10% recommended by Calthorpe. We believe the benefits of making a few extra units affordable outweigh the small decrease in revenues we would experience otherwise. Our Financial Analysis section provides a sensitivity analysis that compares the relative revenue streams associated with various scenarios involving affordable housing.

Environmental Issues

Building Demolition

Because the parking deck on 1st and Washington is owned by the City, the demolition of the deck will be taken care of by the DDA. However, WSS is created through a partnership with Dax Ponce De Leon. As such, the demolition which will be needed for our site is that of the two buildings adjacent to our site on 1st and Washington which are currently owned by Mr. Ponce De Leon. Because the parcels are small and have very small buildings currently on them, the demolition costs will also be small—approximately 180,000 cubic feet at a cost of \$0.45 per cubic foot, for a total cost of \$84,645.

There will be little to no environmental effects of the demolition of the buildings or the parking structure. No hazardous waste resides in either building.

“Green” Considerations

Conserving energy through the way we construct buildings is of the utmost importance when we consider that in the “United States, buildings use one-third of our total energy, two-thirds of our electricity, one-eighth of our water, and transform land that provides valuable ecological resources.”²⁷ There are also financial benefits to building with a concern for the environment. According to a report of California’s Sustainable Building Task Force, it costs on average 1.84 percent more to build a LEED-certified building than one that does not qualify for certification. In examining the financial benefits of green buildings, it was discovered that there was a total 20-year net benefit of \$49 to \$66 per square foot, compared with an average extra cost of \$3 to \$5 per square foot to build green.²⁸ For this reason, WSS will install vegetated roofs with water efficient landscaping.



Green Roof, Weston, Inc.

WSS will install vegetated roofs to “reduce heat islands (thermal gradient differences between developed and undeveloped areas) to minimize impact on microclimate and human and wildlife habitat.”²⁹

As stated in the Requirements laid out by the LEED-NC Green Building Rating System for New Construction & Major Renovations, WSS will include a vegetated roof for at least 50% of the roof area.³⁰

WSS will make the vegetated roof water efficient. WSS intends to “limit or eliminate the use of potable water, or other natural surface or subsurface water resources available on or near the project site, for landscape irrigation.”³¹ As stated in LEED-NC requirements, WSS will reduce potable water consumption for irrigation by 50%. By planting species of plants that will encourage water retention, capturing rainwater, and recycling wastewater, WSS plans to achieve its goal of reducing water consumption by irrigation by 50%.³²



WSS Third Floor Plan

Noise Pollution

To ensure noise pollution for the residents of WSS is kept to a minimum, the WSS development is constructed with three key noise pollution preventative measures in mind. The first is a 25 foot setback between the second floor of retail and the first floor of residential. This 25 foot setback will create a buffer between the noise of the retail area and the residences.

Second, WSS will minimize noise pollution for its residents in the two taller towers by adding one floor of common space such as storage space, laundry, etc between the retail area and the residences above. This will act as an additional barrier to insulate WSS’s residents from the retail noise.

Lastly, WSS’s construction will lessen noise pollution through its green roof that covers the majority of the development’s roofable area. According to Livingroofs.org, green roofs reduce sounds by 8dB when compared to a conventional roof system. The level to which green roofs lessen noise is actually “sufficient to provide noise insulation to buildings under aircraft flight paths.”³³ A green roof’s ability to reduce noise pollution is confirmed by the American Institute of Architects:

*Green roofs last two to five times longer than traditional roofs, require less maintenance, save energy by regulating temperature variations, reduce sound pollution, lower storm-water utility fees, receive energy tax credits, and increase property values.*³⁴

Zoning

According to the City’s RFP, the 1st and Washington site is described as a parcel of 52,932 square feet with frontage on East Washington and South First Streets. The 1st and Washington parcel is currently zoned P but the City intends to rezone the parcel as C2A/R in keeping with adjacent properties. It is located within a parking-exempt district and the Ann Arbor Downtown Development Authority (DDA) District. The site is in a transition area, between the downtown core and residential neighborhood to the west.



Downtown Ann Arbor at Night

As described in the City of Ann Arbor’s website, a zone C2A/R is a Commercial Residential District, currently located between the Main Street and State Street areas.

C2A/R is designed to encourage the orderly clustering and placement of high-density residential and

complementary commercial development within the Central Business District.

Because the parcel resides in the C2A/R zone, the developer of the land must abide by two main tenants in designing and constructing the development – ensure the construction of the building abides by 1) the City of Ann Arbor’s zoning regulations and 2) the interests of the surrounding stakeholders.

The City of Ann Arbor’s City Code, Zoning chapter (Chapter 55) sets forth a list of mandatory zoning requirements for a C2A/R zone property. The following is the abbreviated list:

- 600% floor area ratio maximum.
- 10-foot setback which will apply to every lot line that abuts a public street.
- When any lot line abuts residentially-zoned land, a required setback shall be applied from that lot line equal to that which is required in the abutting residential zone.
- When a building exceeds 3 stories in height, a setback requirement of 1 foot for each 10 feet of building height above third story shall be applied to side or rear walls that do not face a street. This minimum setback shall apply to entire wall from bottom of fourth story.
- Minimum height requirement of 2 stories.
- Usable floor area of second story must be a minimum of 75 percent of first story usable floor area.

To ensure WSS took into consideration Ann Arbor’s stakeholders, WSS conducted primary and secondary research (please refer to section above on Stakeholders Analysis).

Political and Legal Issues

GAC & X, LLC has chosen to do business as a limited liability company because it provides limited personal liability of equity

interest to owners. As an LLC, GAC & X will have flexibility of a sole proprietorship or partnership within the structure of limited liability, a structure very similar to corporations. Additional advantages of an LLC are:

- *No requirement of an annual general meeting for shareholders.*
- *Pass-through taxation (i.e. no double taxation)*
- *Limited liability (meaning that the owners of the LLC, called "members," are protected from liability for acts and debts of the LLC).*
- *Using default tax classification, profits taxed personally (at the member level, not at the LLC level).*
- *Can be set up with just one natural person involved.*³⁵

Since GAC & X, LLC will be acquiring the property on 1st and Washington from the City of Ann Arbor, we plan to abide by the final RFP. Since a draft RFP has been distributed, we have already started taking the City's needs and interests into consideration. In addition to considering the City's RFP, we are also adhering to the Ann Arbor City Code. According to the Ann Arbor City Code, the 1st and Washington site is designated as a C2A/R site. As such, there are certain requirements we must abide by (please see section above on Political Considerations). Lastly, to meet the city's affordable housing recommendation, the LLC will be including 15% affordable housing units.

Marketing Plan for West Side Stories

The two main goals in developing the marketing plan for WSS are 1) drive awareness of our product in the Ann Arbor community and 2) encourage in-person visits to WSS and the purchase of the residential and retail spaces. Understanding this, we have developed a two-prong strategy to simultaneously reach both the residential and retail consumers.

Residential Customers

To reach residential consumers, we will drive awareness of WSS by reaching them when they are thinking about purchasing a home in downtown Ann Arbor. The following is the marketing plan that outlines the marketing tactics that will execute this strategy:

- Create exciting ad campaign that introduces WSS and highlights its downtown living benefits in a mixed use development.
- Advertisements in downtown Ann Arbor restaurants, bars, etc.
- Billboards overlooking the congested streets people take to go from suburban homes to work.
- Billboards overlooking lifeless strip malls, office parks, and suburbs.
- Advertisements in taxis, parking structures, and gas stations that tout the advantages of "walking" to entertainment, work, home, etc.



Example Advertisement

Once residential property customers are aware of our residential properties, WSS plans to invite them to make an in-person visit and eventually purchase the property by employing the following tactics:

- Build a WSS Information Center open 7 days a week staffed by knowledgeable and friendly local staff.
- Giveaways to people that visit the WSS Information Center for a 10 minutes information session (local restaurant gift certificates, football tickets, etc).

- Create a captivating 10 minute information session that explains the advantages of downtown Ann Arbor living in WSS.
- Create an exact replica of a condominium for sale, completely furnished, where the 10 minutes WSS presentation will take place.
- Giveaways to people that purchase WSS condominiums (iPods, bikes, etc).
- Distribute WSS brochure to both downtown and suburban retailers.
- Advertise in Ann Arbor Chamber of Commerce organization and newsletter.
- Contact national chains by mail and personally to set up meetings where WSS sales staff formally presents to them cost to benefits ratio of buying in downtown Ann Arbor.

Retail Customers

First, to drive awareness of the quality retail property we offer both local and national retailers, WSS plans to implement the following strategy:

- Create exciting brochure for retailers that introduces aesthetics and amenities of building as well as the financial benefits of a downtown retail location.

Next, to drive retailers to visit WSS and purchase retail property, WSS plans to execute the following tactics:

- Offer a free all-expenses-paid trip to visit WSS location.
- Provide retailer with personal tour of the information center and actual retail location equipped with all necessary amenities.
- Offer incentives to purchase such as cash-back bonuses.

36



Aerial View of DDA District

ARCHITECTURE & ENGINEERING

Introduction

The design team of WSS created a design that integrates the East side of downtown with the forgotten West side during the day and night.

The WSS design team developed an attractive complex consisting of two stories of retail use, six stories of two residential towers facing Washington, 1st Street, and Liberty Street, and one four-story tower of residence atop two floors of retail on the corner of Ashley and Washington.



West Side Stories (1st & Washington)

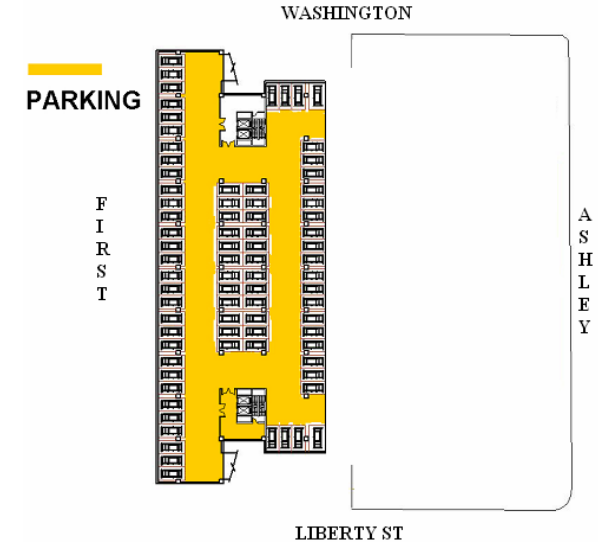
The development connects well with high-traffic downtown avenues, attracting people along Ashley Street to a theater and restaurant we plan to locate on the northeast corner of our development. Once people have reached the corner of Ashley

Street & Washington Street, they will be attracted to the other WSS offerings and have an easy path to reach them.

Floor Plans

Underground

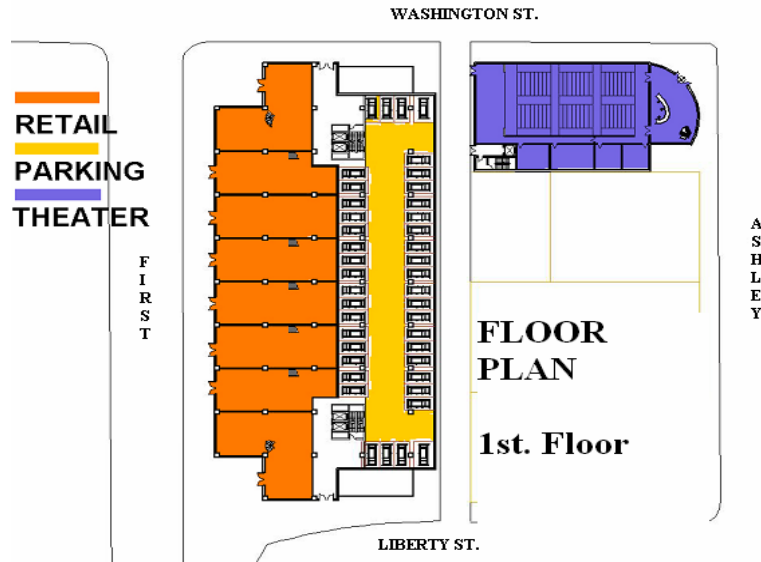
As stated in previous sections, Ann Arbor has a need for parking. WSS addresses this need by designing an underground facility along First Street that will hold a total of 80 parking spaces, about half of which will be designated for public use. The main car entrance is on Liberty Street and the exit is on Washington Street.



First Floor

The first floor is comprised entirely of retail and hidden parking spaces. The retail area's façade is on First Street, containing entrances for eight retail spaces. The occupants of the retail spaces will be deliberately chosen to match WSS's intention to create a center of entertainment, dining, and leisure, which fits in well with surrounding retail offerings. WSS will also target retail establishments that will thrive in both the day and night time, so as to increase traffic during the day, but also to take advantage of the crowds that already frequent the area

at night. All retail spaces will have glass façades and will help achieve our design intentions.



Some of our ideas for possible retail shops are the following:

- Upper-scale salon and spa (to occupy the corner unit on 1st and Washington)
- Restaurant (on the SW corner)
 - Bookstore/coffee shop
 - Karaoke bar
 - Comedy club (improv)
 - Bakery/deli/small grocery (like Jefferson Market)
 - Trendy local clothing shop
 - Wine tasting shop
 - Art gallery



Sign Outside Jefferson Market

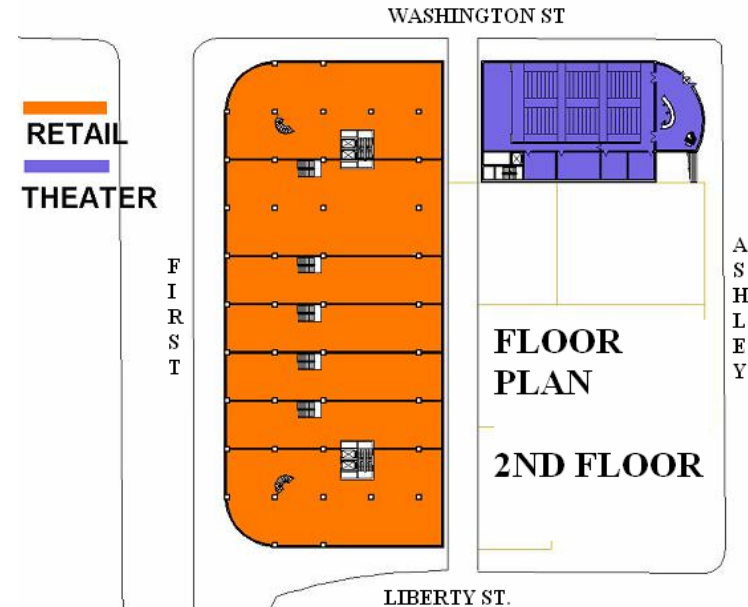
We also believe the restaurant on Ashley should be a trendy, nationally-recognized restaurant such as Buca di Beppo, and

the theater could be used for a local comedic musical, such as Triple Espresso, which has sold out crowds in downtown San Diego for seven years running. The theater, which will be partially underground and require greater height than typical first-floor retail, will take advantage of the natural downward slope on Washington Street.

Lastly, the inclusion of 42 parking spaces on the 1st floor will serve retail costumers' parking needs as well as a loading/unloading area for the retailers.

Second Floor

The second floor of WSS will serve as a supplemental floor to retailers that need more space, such as the spa, restaurants, clothing store, and bookstore/coffee shop. Other smaller shops may opt to purchase only the first floor area, although prices

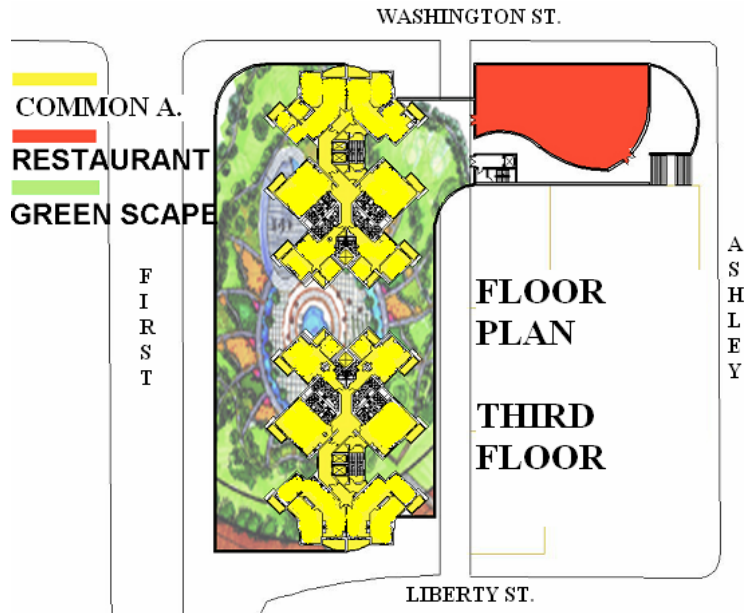


per square foot will be somewhat higher for businesses that choose to do this. For this reason, a retail outlet may also want to acquire an adjoining lot on the second floor for a reduced price.

The second floor is different from the first floor in a few different ways. Apart from not having any entrances from the outside, the corners on the second floor are round-shaped to give the corner spa and restaurant a better view and to create a more attractive space for passer-bys. The second floor also includes nearly twice as much floor space, due to the lack of parking on this floor of the building.

Third Floor

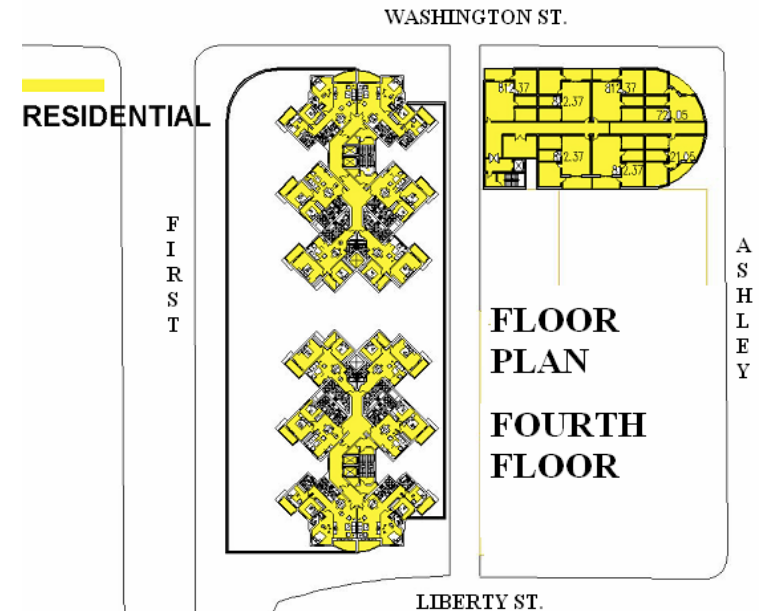
The third floor design marks the beginning of WSS residences and contains the rental office and lobby and may contain other common areas such as laundry, storage, a club house, etc.



The common area on this floor will have direct access to the northeast restaurant, theater, and Ashley Street by way of a landscaped terrace outside the two towers. This common area addresses a difficulty experienced by many downtown residents who would appreciate having space for walking, exercising, or playing with their children. This terrace will include both green areas and hardscaping.

Fourth Floor – Eight Floor

Floors four through eight in the two towers and three through seven in the third tower will all have the same distribution of the residential units is as follows:



Each of the first and second towers contains 1 lobby/utilities floor and 5 residential floors for a total of 6 stories that contain 6 units per floor with the following variations:

WEST SIDE STORIES ❖❖❖

- 2 1084 square foot units: 3 bed, 2 bath, 2 balconies, kitchen and living room
- 2 827 square foot units: 2 bed, 1 bath, 1 balcony, kitchen and living room
- 2 993 square foot units: 2 bed, 1 bath, 1 balcony, kitchen and living room

The 3rd tower includes the restaurant and 4 residential floors for a total of 5 stories. The building contains 7 units per floor with the following variations:

- 5 812 square foot units: 1 bed, 1 bath, kitchen and living room
- 2 721 square foot units: 1 bed, 1 bath, kitchen and living room

Construction Details

Demolition

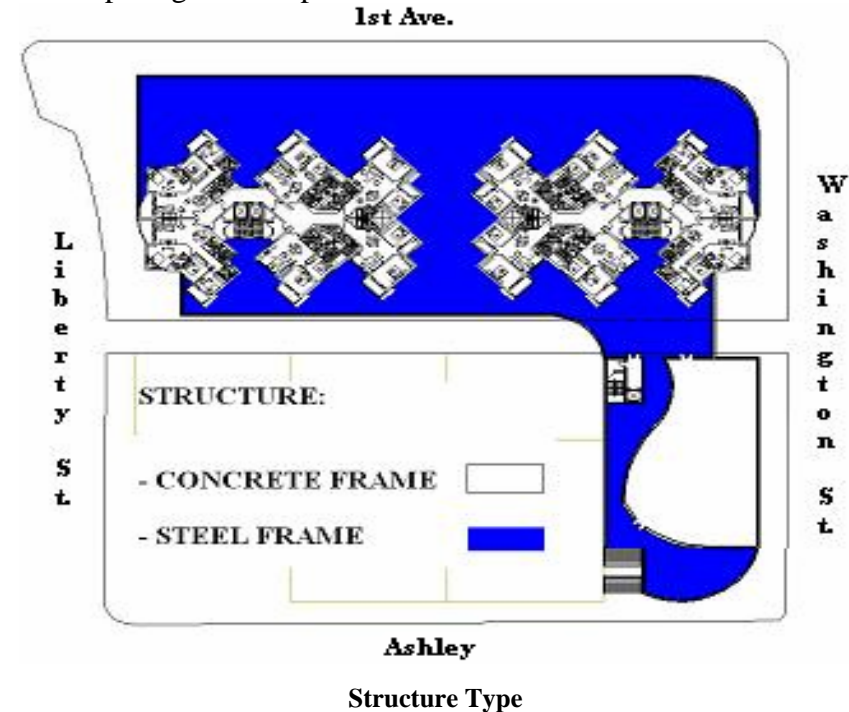
Demolition for the parking structure is currently under way, the costs of which are already being absorbed by the City. Demolition of the other two sites will be relatively inexpensive, costing only \$84,645.

Details of Construction Process & Materials

WSS structures will have a mix use on the following considerations:

WSS plans to start construction in May 2006 which will give the contractor 6 winter-free months to complete the foundations. The retail section of the development will be the part finished the fastest because of its steel frame structure. The steel frame will require future maintenance. These costs

can be easily carried out by the owners of the retail since the retail space generates permanent revenues.



The residential towers will be comprised of a concrete frame. A concrete frame structure generates confidence and security because it is an almost maintenance-free structure system very important in a partial affordable housing community. After the execution of the foundations and retail structures, the contractor can erect the three residential towers with no significant problem during the winter, except weather considerations when pouring concrete for the facades.

Materials

Weather considerations must be taken into account for the correct estimation of costs, times and selection of construction materials. Since concrete pouring will take place in winter and the need for providing affordable housing will lead WSS to have some cost constraints, the selection of Self-Compacting Concrete mix design is a must. Since such material has been proven as waterproof and bad water can slow down construction, this concrete will decrease construction costs because it reduces labor costs by almost 20%.



Self-Compacting Concrete

Other significant materials to be used (by quantity amount needed):

- Regular concrete-block based masonry will be included for the exterior walls and the inclusion of drywall divisions for the interiors, especially in the residential part to maximize the usable area, since the retail will be sold as warm white space.
- Ceramic tile floors for the bathrooms and kitchen areas will be included, such titles will match the type of residential unit (square foot, affordable, and not affordable) in cost and quality.³⁷



Ceramic Tile

Exterior Finishes

For the exteriors of the residential towers, clay-brick sheathing brought from Florida (lower costs found) will be used in order

to accommodate an attractive flooring along the entire common area (hardscaping) of the third floor.

A line of clay-brick³⁸ from the same company will be designated for the sheathing of the towers' facades.

As for the retail facade, glass curtain walls will be used to construct under tight timelines because of its ease of installation and aesthetic appeal. Even though this kind of exterior finishing might look expensive, the added beauty will add an appeal to the building that will be reflected in the final selling cost of the development.³⁹



Clay Tile



Glass Curtain Walls

General Contractor Selection

To perform the construction and project management of WSS, a bid was placed and Sentenial Contractors Inc. surfaced as the most appropriate general contractor. The decision was based on costs (3% of hard costs), construction time (13.5 months from the start date) and contractor's performance and previous experiences with projects of this size.

Around 82% of the entire work will be carried out by Sentenial's own forces. The remaining 18%, mechanical jobs

and finish jobs such as carpets installation, etc, will be sub-contracted by Sentenial.

Construction Timeline

An approximate timeline of construction was developed by WSS's design team. Assuming semi-conservative numbers for the permits and financial stages, our total development time will be 19 months.

Pending the general contractor's final performance and weather, the following is a timeline for construction:



View of West Side Stories, looking southwest down Ashley

FINANCIAL ANALYSIS

Introduction

Several years ago, a development was proposed for the site at 1st and Washington that was similar to WSS in that it included multiple stories of new housing, some of it affordable, retail, and parking. Unfortunately, the proposal was rejected once it became known that a seventh floor would have to be included to make the project financially feasible—this was just too high.⁴⁰ Recent sentiment of City government has now shifted to include the possibility of even eight, nine, or ten stories on that particular site. As a result, WSS, which reaches eight stories at its highest point, is a very profitable venture, even by the most conservative estimates.

Financial Goals

As developers of WSS, we have several financial goals that are both quantitative and qualitative in nature:

- Make a net margin of between 15% and 20%.
- Strictly adhere to the timeline outlined in the Architectural Design section of this report.
- Obtain as much government assistance as possible, both in financial subsidies and a streamlined approval process.
- Secure 50% in guaranteed sales by the time major construction begins.
- Sell our interest in the development as soon as possible (assuming a healthy market) upon completion.
- Market the success of our project, in preparation of future developments in and out of Ann Arbor.

Equity and Financing

We expect to finance our development primarily with construction loans, totaling approximately 80% of our construction costs, giving us a LTV of 64%. We believe this to be reasonable, assuming we are able to pre-sell a majority of the residential units and all the retail units before the entirety of these funds are needed, which is a good possibility if we aggressively pursue our marketing strategy. A 7% interest rate has been incorporated into all projected loans.

Of the remaining funds, we expect to receive \$900,000 in government assistance due to subsidies for affordable housing, high-density construction, first-floor retail, and possibly (but not likely) our creation of green space. About \$6.2 million will have to be raised through personal sources as well as outside investors. It is quite likely that Dax Ponce de Leon, current owner of the two small parcels of land we would need to acquire for our development, will be interested in purchasing an even greater ownership interest in WSS than the one we propose below in Project Costs.

| Sources of Funds | | Uses of Funds | |
|-------------------------|---------------------|--------------------------------|---------------------|
| Equity | \$6,162,039 | Land | \$3,000,000 |
| Governmental Assistance | \$900,000 | Construction (Hard & Soft) | \$22,723,899 |
| Construction Loan | \$28,248,157 | Contingency Expenses | \$1,704,292 |
| | | Developer's G&A/Marketing | \$488,564 |
| | | Construction Financing costs | \$2,095,496 |
| | | Sales Financing Costs | \$1,050,429 |
| | | Sales commission/closing costs | \$1,618,055 |
| | | Partnership Interest | \$2,629,462 |
| Total Sources | \$35,310,196 | Total Uses | \$35,310,196 |

WEST SIDE STORIES - 2005 Cost of Construction Estimate

Property Location: On Corner of First Street and Washington Street
Approximate Parcel Size: 52,932
Ann Arbor Cost Modifier: 106

| Development Data (User Input) | Total SF | Development Description |
|---|-------------------|---|
| Condos / Apartments (Mid Rise 4 to 7 Stories) | 22,008 SF | 3rd tower with 812 and 721 sq.ft units |
| Condos / Apartments (High Rise 8 to 24 Stories) | 58,120 SF | Tower 1 & 2: 1084, 993 & 827 sq.ft units; |
| Movie theater | 6,640 SF | Tower 3: 812 and 721 sq.ft units |
| Community Centers / Health Clubs (Minimum 30,000 SF) | 8,004 SF | Movie theater in the corner of Main & Washington |
| Department Stores | 7,597 SF | Retail & South-west Corner |
| Retail Stores (Individual) | 10,999 SF | 1st. & Second floor opt retail |
| Restaurants | 21,620 SF | Mid retail 1st & Second Floors |
| Greenspace (Landscaping on third's floor terrace) | 13,736 SF | 3 rests. and bars in the retail area/ 1 rest. above theater |
| Hard Scape (Landscaping on third's floor terrace) | 13,736 SF | Fn the common area of the third floor |
| Greenroof (All 3 towers) | 13,482 SF | For the Common area on the Third floor |
| Parking Decks (Under 150,000 SF Total Area / Above Grade) | 10,550 SF | Environmental Remediation |
| Parking Decks (Under 150,000 SF Total Area / Below Grade) | 24,241 SF | 1st.floor Parking 42 spaces |
| Total Development Area | 210,733 SF | Underground. 80 parking spaces |
| Floor Area Ratio | 514% | |

| Base Cost of Construction Estimate | Base | | Upgrade % | | Total | | Cost / SF | |
|---|-----------|----------------------|-----------|----------------------|-----------|-----------|-----------|--|
| | Cost / SF | Base Cost | Applied | Base Cost | Dev. Type | Cost / SF | Total | |
| Condos / Apartments (Mid Rise 4 to 7 Stories) | \$77.11 | \$ 1,798,801 | 1.25 | \$ 2,248,501 | \$ 102.17 | \$ | 10.67 | |
| Condos / Apartments (High Rise 8 to 24 Stories) | \$89.01 | \$ 5,483,657 | 1.25 | \$ 6,854,571 | \$ 117.94 | \$ | 32.53 | |
| Movie theater | \$150.08 | \$ 1,056,291 | 1.10 | \$ 1,161,920 | \$ 174.99 | \$ | 5.51 | |
| Spa & Health Club | \$160.94 | \$ 1,365,395 | 1.15 | \$ 1,570,204 | \$ 196.19 | \$ | 7.45 | |
| Department Stores | \$75.04 | \$ 604,292 | 1.00 | \$ 604,292 | \$ 79.54 | \$ | 2.87 | |
| Retail Stores (Individual) | \$75.04 | \$ 874,886 | 1.00 | \$ 874,886 | \$ 79.54 | \$ | 4.15 | |
| Restaurants | \$145.94 | \$ 3,344,459 | 1.10 | \$ 3,678,905 | \$ 170.16 | \$ | 17.46 | |
| Greenspace (Landscaping) | \$2.74 | \$ 39,933 | 1.20 | \$ 47,920 | \$ 3.49 | \$ | 0.23 | |
| Hard Scape (Landscaping) | \$7.71 | \$ 112,267 | 1.20 | \$ 134,721 | \$ 9.81 | \$ | 0.64 | |
| Greenroof (Environmental Remediation) | \$25.88 | \$ 369,778 | 1.20 | \$ 443,733 | \$ | \$ | 2.11 | |
| Parking Decks (Under 150,000 SF Total Area / Above Grade) | \$50.20 | \$ 561,384 | 1.15 | \$ 645,592 | \$ 61.19 | \$ | 3.06 | |
| Parking Decks (Under 150,000 SF Total Area / Below Grade) | \$64.01 | \$ 1,644,869 | 1.20 | \$ 1,973,843 | \$ 81.43 | \$ | 9.37 | |
| Base Construction Cost Estimate | | \$ 17,256,011 | | \$ 20,239,087 | | | | |

| Final Cost of Construction Estimate | |
|---|-------------------------------|
| Total Base Cost of Construction Estimate | \$ 20,239,087 |
| Demolition for parcels 2 and 3 (fixed cost of 0.45 \$/sf) | \$ 84,645 |
| Site Work and Underground Utility Work (\$8.75 / SF of Parcel) | \$ 358,890 |
| Subtotal - Hard Construction Costs | \$ 20,682,622 |
| | \$ 153.22 per SF Total |
| Construction Project Management Fees (3% of Total Construction Costs) | \$ 620,479 |
| Initial Site Survey (0.15 \$/sf) | \$ 6,312 |
| Soil Boring / Foundation Analysis | \$ 31,050 |
| Arquitectural / Engineering Fees (5.3% of Total Construction Costs) | \$ 1,096,179 |
| Environmental | \$ 35,000 |
| Permit Fees (Per City of Ann Arbor Schedule) | \$ 124,827 |
| Plan Review Fees (Per City of Ann Arbor Schedule) | \$ 49,931 |
| Insurance | \$ 42,500 |
| Legal | \$ 35,000 |
| Subtotal - Soft Construction Costs | \$ 2,041,277 |
| Total Project Hard and Soft Construction Costs | \$ 22,723,899 |
| Contingency Costs | \$ 1,704,292 |
| Total Project Hard and Soft Construction Costs w/ Contingency | \$ 24,428,191 |
| Land Acquisition | \$ 3,000,000 |
| Developer's G&A, Marketing expenses | \$ 488,564 |
| Construction Financing (based on 19 months of construction at 7% interest) | \$ 2,095,496 |
| Sales Financing (based on 6 months of post-construction sales at 7% interest) | \$ 1,050,429 |
| Sales Commission (at 4%) | \$ 1,575,055 |
| Closing Costs & Title Recording | \$ 43,000 |
| TOTAL COSTS OF PROJECT | \$ 32,680,735 |

Project Costs

Total costs for WSS are estimated to be approximately \$32.7 million. One key assumption behind this cost structure is the estimated cost of partnering with Dax Ponce de Leon. Dax expressed to us the desire to be a part of whatever future earnings are available to the property that he currently owns; as such, he has no desire to sell it. His personal appraisal of the land is a combined value of between \$1.95 and \$2.25 million; he also claims to be planning a new development on the north-east parcel at a cost of \$7 million, although he failed to disclose his expected returns on the development. We believe Dax may be interested in becoming a part owner in the WSS development, which is likely to achieve a significantly greater return due to its size relative to Dax's parcel alone and expected assistance from the City and the DDA.

The nature of the deal is that Dax would turn his land over to GAC & X, LLC in exchange for a guaranteed percentage of future revenues. Based upon his high land estimate of \$2.25 million, we believe it fair to offer him a percentage that equates to Dax earning 15% on his land value, which is a healthy return on an investment that is basically risk free. Based upon our projections for the development's value upon sale, this translates to a 6% ownership in WSS, which is included in Project Costs below.

Forecasted Revenues

In our project, revenues are primarily derived from three sources: retail sales (which includes two floors of shops in our main building as well as a theater and restaurant in the northeast corner) totaling \$17.4 million; residential sales (including 88 total units of 5 floor plans ranging from 721 ft² to 1,084 ft², with affordable housing proportionally distributed among all floor plans) totaling \$22.0 million; and parking space sales (to both residents as private parking and to the DDA as public parking) totaling \$3.5 million. Our combined revenues are forecasted to be \$43.8 million.

Retail

The retail we are providing in WSS consists of two floors in our main building, as well as a theater and restaurant beneath

the northeast tower. We’re charging a premium on the corner retail spaces, due to their increased window space and visibility. In addition, we are assuming that all access to second floor retail will be through first floor retail; therefore, all retail on the second floor will be an extension of shops on the first floor, which have a sidewalk entrance. In this way, we will not lose space creating an internal stairwell and hallway to second-floor shops, nor will we be forced to deal with second-floor retail vacancies, which often occur when reaching the entrance has been made difficult. A actual prices per square-foot may vary, as shops take on more of the less-valuable second floor space; but for purposes of this analysis, we have assumed equal distribution of space and prices among all middle-retail stores.

| RETAIL | Location | SF/Unit | # of | | Price/SF | Price/Unit | Total Sales |
|---------------|-------------------------------|---------|-------|----------|----------|-------------|---------------------|
| | | | Units | Total SF | | | |
| Corner Retail | Floors 1 & 2 of main building | 8,004 | 2 | 16,007 | \$350 | \$2,801,225 | \$5,602,450 |
| Mid Retail | Floors 1 & 2 of main building | 4,603 | 6 | 27,621 | \$330 | \$1,519,147 | \$9,114,881 |
| Theater | Floor 1 of Tower 3 | 6,640 | 1 | 6,640 | \$175 | \$1,162,000 | \$1,162,000 |
| Restaurant | Floor 2 of Tower 3 | 4,279 | 1 | 4,279 | \$360 | \$1,540,440 | \$1,540,440 |
| TOTALS | | | 10 | 54,547 | | | \$17,419,771 |

Residential

Residential units are divided up among the three towers: Towers 1 and 2 will have five floors of residential space above one floor of common area. The units in these buildings are between 828 and 1,084 ft² and range in price between \$300/ft² and \$314/ft². Tower 3 will consist of four floors of residences,

primarily made up of 812 ft² units with a few assorted 721 ft² units. These are also priced at \$308/ft² to \$312/ft². The exception to these prices is the affordable housing units, which make up 15% of each floor plan’s available units. All apartments have balconies, and all residents have the option of purchasing a private parking spot underground for \$100/month.

| RESIDENTIAL | Location | SF/Unit | # of | | Price/SF | Price/Unit | Total Sales |
|-------------------|--------------|---------|-----------|---------------|----------|------------|---------------------|
| | | | Units | Total SF | | | |
| Type 1 | Towers 1 & 2 | 1,084 | 17 | 18,428 | \$300 | \$325,200 | \$5,528,400 |
| Type 1 Affordable | Towers 1 & 2 | 1,084 | 3 | 3,252 | \$69 | \$74,796 | \$224,388 |
| Type 2 | Towers 1 & 2 | 994 | 17 | 16,898 | \$312 | \$310,128 | \$5,272,176 |
| Type 2 Affordable | Towers 1 & 2 | 994 | 3 | 2,982 | \$72 | \$71,568 | \$214,704 |
| Type 3 | Towers 1 & 2 | 828 | 17 | 14,076 | \$314 | \$259,992 | \$4,419,864 |
| Type 3 Affordable | Towers 1 & 2 | 828 | 3 | 2,484 | \$82 | \$67,896 | \$203,688 |
| Type 4 | Tower 3 | 812 | 17 | 13,804 | \$308 | \$250,096 | \$4,251,632 |
| Type 4 Affordable | Tower 3 | 812 | 3 | 2,436 | \$83 | \$67,396 | \$202,188 |
| Type 5 | Tower 3 | 721 | 7 | 5,047 | \$312 | \$224,952 | \$1,574,664 |
| Type 5 Affordable | Tower 3 | 721 | 1 | 721 | \$90 | \$64,890 | \$64,890 |
| TOTALS | | | 88 | 80,128 | | | \$21,956,594 |

Parking Spaces

WSS has an underground parking lot that holds 80 parking spaces and a hidden first-floor parking lot that holds 42 spaces. Shoppers parking in these lots may only exit the parking lot by foot on the first floor. For this reason, we have designated 38 spots out of the 80 that are underground for WSS residents (rather than simply designating the first-floor lot as private), as they will have to take an elevator up beyond the retail units anyway. In this manner, half of the public lots will afford

drivers to walk directly out onto the sidewalk without having to climb stairs or wait for an elevator.

The DDA will pay developers \$35,000 per parking space to encourage more public parking. The 38 spaces we are withholding are valued at \$16,000 each, based on a perpetual annuity of \$1,200 annually, discounted using a rate of 10%, less an estimated annual appreciation/inflation of 2.5%.

| PARKING | | # of | | Value/Unit | Total Value |
|----------------------|-------------------------|------------|------------------------|------------|--------------------|
| | | Units | | | |
| Public (sold to DDA) | Underground, west side | 42 | | \$35,000 | \$1,470,000 |
| Private* | Underground, east side | 38 | (\$100/mo rental each) | \$16,000 | \$608,000 |
| Public (sold to DDA) | Floor 1 - Main building | 42 | | \$35,000 | \$1,470,000 |
| | | 122 | | | \$3,548,000 |

Sensitivity Analysis

Total expected revenues, which also include a small amount for governmental subsidies, and are summarized as follows:

| DESCRIPTION | Pessimistic | Realistic | Optimistic |
|--------------------------|---------------------|---------------------|---------------------|
| Retail | \$15,305,936 | \$17,419,771 | \$18,707,255 |
| Residential | \$20,836,168 | \$21,956,594 | \$25,144,918 |
| Parking | \$3,370,600 | \$3,548,000 | \$3,725,400 |
| Other Income (subsidies) | \$400,000 | \$900,000 | \$1,400,000 |
| Total Revenues | \$39,912,704 | \$43,824,365 | \$48,977,573 |
| Total Costs | \$36,518,957 | \$35,310,196 | \$34,681,494 |
| Expected Profit | \$3,393,746 | \$8,514,168 | \$14,296,079 |
| Profit Margin | 8.50% | 19.43% | 29.19% |

Due to the variability among current expectations regarding affordable housing, we decided to perform a sensitivity analysis on these numbers to determine how revenues, profits, and margins might change under various different scenarios. The base analysis, which is the financial plan we presume to follow with WSS, assumes that an even spread of 15% affordable housing units are taken from each of the five available floor plans at all three residential towers. We also decided to find out how these values would change assuming only 10% of units are designated affordable, to determine if the difference is drastic enough for us to change our model. (Note that the affordable housing subsidies remain the same; this is because the City and the DDA have capped the amount of financial assistance they are willing to provide at this time.) The results are the following:

| DESCRIPTION | Pessimistic | Realistic | Optimistic |
|--------------------------|---------------------|---------------------|---------------------|
| Retail | \$15,305,936 | \$17,419,771 | \$18,707,255 |
| Residential | \$21,652,782 | \$22,820,354 | \$26,190,616 |
| Parking | \$3,370,600 | \$3,548,000 | \$3,725,400 |
| Other Income (subsidies) | \$400,000 | \$900,000 | \$1,400,000 |
| Total Revenues | \$40,729,318 | \$44,688,125 | \$50,023,271 |
| Total Costs | \$36,518,957 | \$35,310,196 | \$34,681,494 |
| Expected Profit | \$4,210,361 | \$9,377,928 | \$15,341,777 |
| Profit Margin | 10.34% | 20.99% | 30.67% |

The realistic difference in revenues and profits is \$863,760, for the benefit of four additional families being able to live in downtown Ann Arbor who wouldn't have been otherwise.

We further analyzed our model to determine how much financial benefit would be derived by allocating all affordable housing to the third tower, where units are smaller. In this manner, all the units in Towers 1 and 2 would sell at market prices, and two-thirds of Tower 3 would be affordable housing. We were surprised to find the following results:

| DESCRIPTION | Pessimistic | Realistic | Optimistic |
|--------------------------|---------------------|---------------------|---------------------|
| Retail | \$15,305,936 | \$17,419,771 | \$18,707,255 |
| Residential | \$18,476,635 | \$22,941,640 | \$22,321,501 |
| Parking | \$3,370,600 | \$3,548,000 | \$3,725,400 |
| Other Income (subsidies) | \$400,000 | \$900,000 | \$1,400,000 |
| Total Revenues | \$37,553,171 | \$44,809,411 | \$46,154,156 |
| Total Costs | \$36,518,957 | \$35,310,196 | \$34,681,494 |
| Expected Profit | \$1,034,213 | \$9,499,214 | \$11,472,662 |
| Profit Margin | 2.75% | 21.20% | 24.86% |

As it turns out, the financial benefit available for selling more units at the market price or ensuring that only the smaller units are designated affordable is marginal at best. We believe WSS will reap untold intangible benefits of goodwill and quicker approvals and sales by choosing the 15% spread option.

Financial Conclusion

Based upon this financial analysis, we believe that a 19.4% margin can realistically be achieved, making West Side Stories an economically attractive option for development.

ACKNOWLEDGEMENTS

In concluding our proposal for West Side Stories, GAC & X, LLC would like to acknowledge and thank the following people and organizations for their support and time in guiding us through the development process. The development of West Side Stories would not have been possible without their support.

- Peter Allen, Real Estate Extraordinaire
- Downtown Ann Arbor home owners
- Downtown Ann Arbor retail customers
- Millennium Club
- Cavern Club
- Blind Pig
- Dax Ponce De Leon, PMA Consultants LLC
- Mark Codash, Downtown Home and Garden
- Three Chairs Company
- Lisa Bee, Sweetwaters
- City of Ann Arbor
- Downtown Development Authority (DDA)
- Jennifer Santi Hall, City of Ann Arbor Planning Commission
- Matt DeLuca, Aristeo Company

SOURCES

- ¹ Sperling, Bert and Peter Sander, *Cities Ranked & Rated*, Wiley & Sons, 2004.
- ² <http://www.forbes.com/2004/05/05/04bestplacesland.html>
- ³ Retail lecture by Robert Gibbs.
- ⁴ Rene Greff, DDA member, "The DDA Three Site Plan," March 8, 2005.
- ⁵ Lawson, Wells, "Profile of Ann Arbor"
- ⁶ <http://www.census.gov/ipc/www/usinterimproj/natprojtab01a.pdf>
- ⁷ <http://factfinder.census.gov/servlet/>
- ⁸ Higher-Density Development, Myth and Fact. Urban Land Institute. 2005, pg. 6.
- ⁹ U.S. Department of Transportation, *Our Nation's Travel* (Washington, D.C.: Author, 1995), pp.13, 22.
- ¹⁰ <http://www.newurbanism.org>
- ¹¹ Ibid.
- ¹² City of Ann Arbor RFP, p. 1.
- ¹³ Ibid.
- ¹⁴ http://en.wikipedia.org/wiki/Ann_Arbor,_Michigan#Economy
- ¹⁵ Pirog, Rich. "Checking the Food Odometer: Comparing Food Miles for Local Versus Conventional Produce Sales in Iowa Institutions." Leopold Center for Sustainable Agriculture. July 2003.
- ¹⁶ USDA. 2002. "Number of farms, land in farms, and value of farm real estate, 1910-2002." Economic Research Service Web site.
- ¹⁷ City of Ann Arbor RFP, p. 1.
- ¹⁸ Ibid.
- ¹⁹ City of Ann Arbor RFP, Affordable Housing Development, Federal HOME Program & Ann Arbor Housing Trust Fund, January 2004, p. 1.
- ²⁰ Creating Affordable Housing in the City of Ann Arbor: A Developer's Guide and Required Forms, created by Linda Bailey and Jennifer Hall of the City of Ann Arbor Planning and Development Services Unit with assistance from the Office of Community Development, October 8, 2005.
- ²¹ Ibid.
- ²² City of Ann Arbor RFP, Affordable Housing Development, p. 5.
- ²³ Creating Affordable Housing in the City of Ann Arbor.
- ²⁴ RFP for Sale and Redevelopment of City-Owned Property Located at First and Washington Streets, Ann Arbor, MI, October 27, 2005.
- ²⁵ http://www.huduser.org/Datasets/IL/IL05/mi_fy2005.pdf
- ²⁶ Creating Affordable Housing in the City of Ann Arbor.
- ²⁷ LEED-NC. Green Building Rating System For New Construction & Major Renovations. Version 2.2. October 2005, pg. 3.
- ²⁸ The Costs and Financial Benefits to Building Green. A Report to California's Sustainable Building Task Force. October 2003, pg. 29. <http://www.cape.com/ewebeditpro/items/O59F3259.pdf>
- ²⁹ LEED-NC. Green Building Rating System, pg. 23.
- ³⁰ Ibid.
- ³¹ Ibid.
- ³² Ibid.
- ³³ <http://www.livingroofs.org/livingpages/bennoisemeliorate.html>
- ³⁴ http://www.aia.org/aiarchitect/thisweek04/tw0813/0813green_roof.htm
- ³⁵ http://en.wikipedia.org/wiki/Limited_liability_company
- ³⁶ Urban Design Workbook for Huron Street, DDA, August 2004.
- ³⁷ <http://www.floridatile.com/prodrev.htm>
- ³⁸ <http://www.rinker.com/florida/products/buildmat/Pavers.htm>
- ³⁹ <http://appsci.queensu.ca/ilc/livebuilding/windows/>
- ⁴⁰ Gantert, Tom, *DDA Pitches New Building – Parking, Residential Proposed at First and Washington*, Ann Arbor News, November 29, 2005.