Presentation to the PUSD Board

Pasadena Unified School District (PUSD) Evaluation of Potential Surplus Sites

June 30, 2010

Prepared by:

CBRE Strategic Consulting

Methodology

Sites' Survey:
Size, Configuration, Access, Topography, Adjacent uses

Site Evaluation & Secondary Analysis:
Redevelopment potential – regulatory & demand limitations, probable uses; Broker/Appraiser interviews

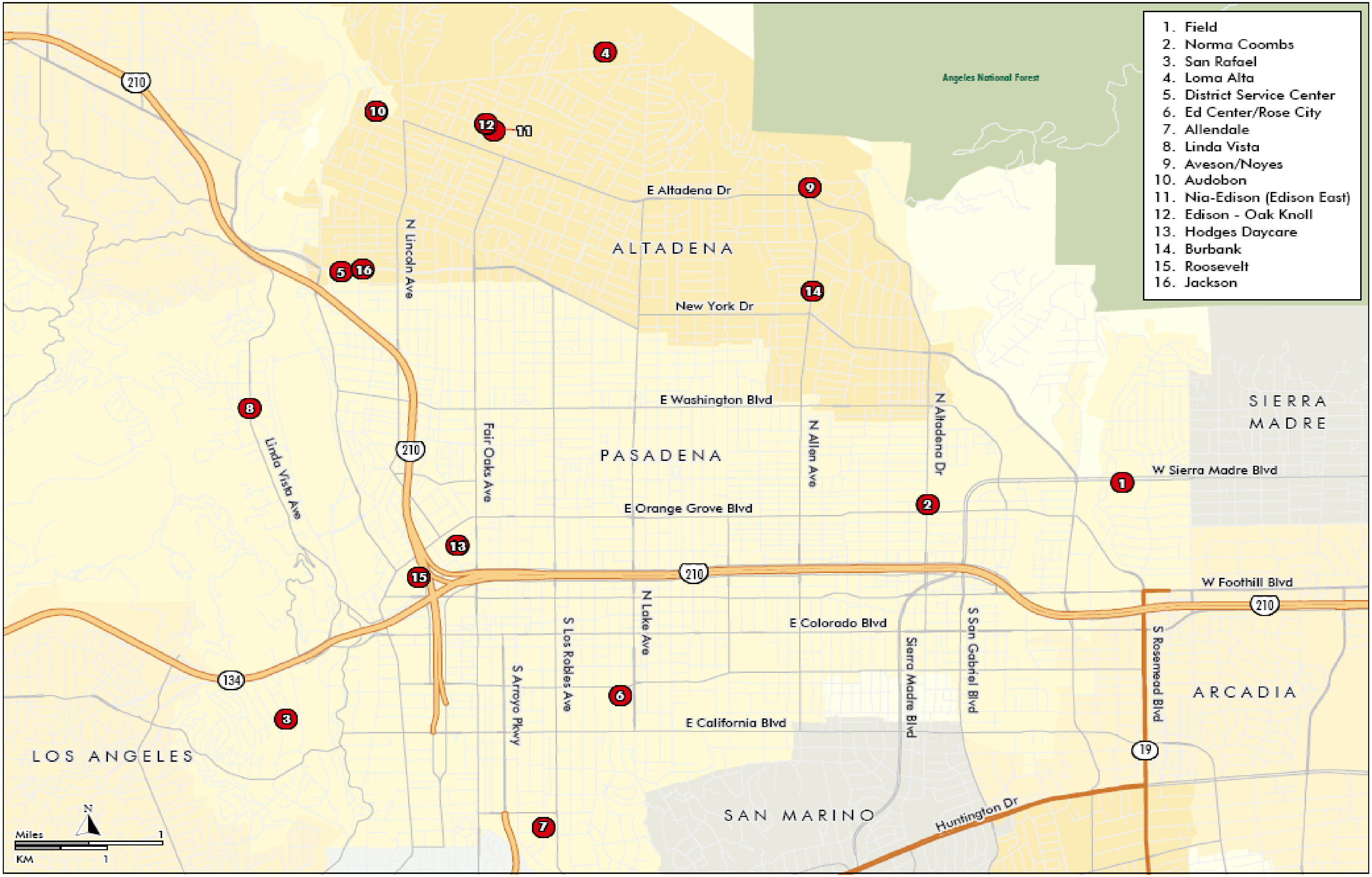
Market Analysis:
Demographics, Market Trends, Demand, Land Sales Comparables

Financial Analysis:
Achievable Lease Rates for Reuse Scenario; Residual Land Value for Disposition Scenario

Strategic Recommendations:
Reuse versus Disposition, Top potential 4-5 sites

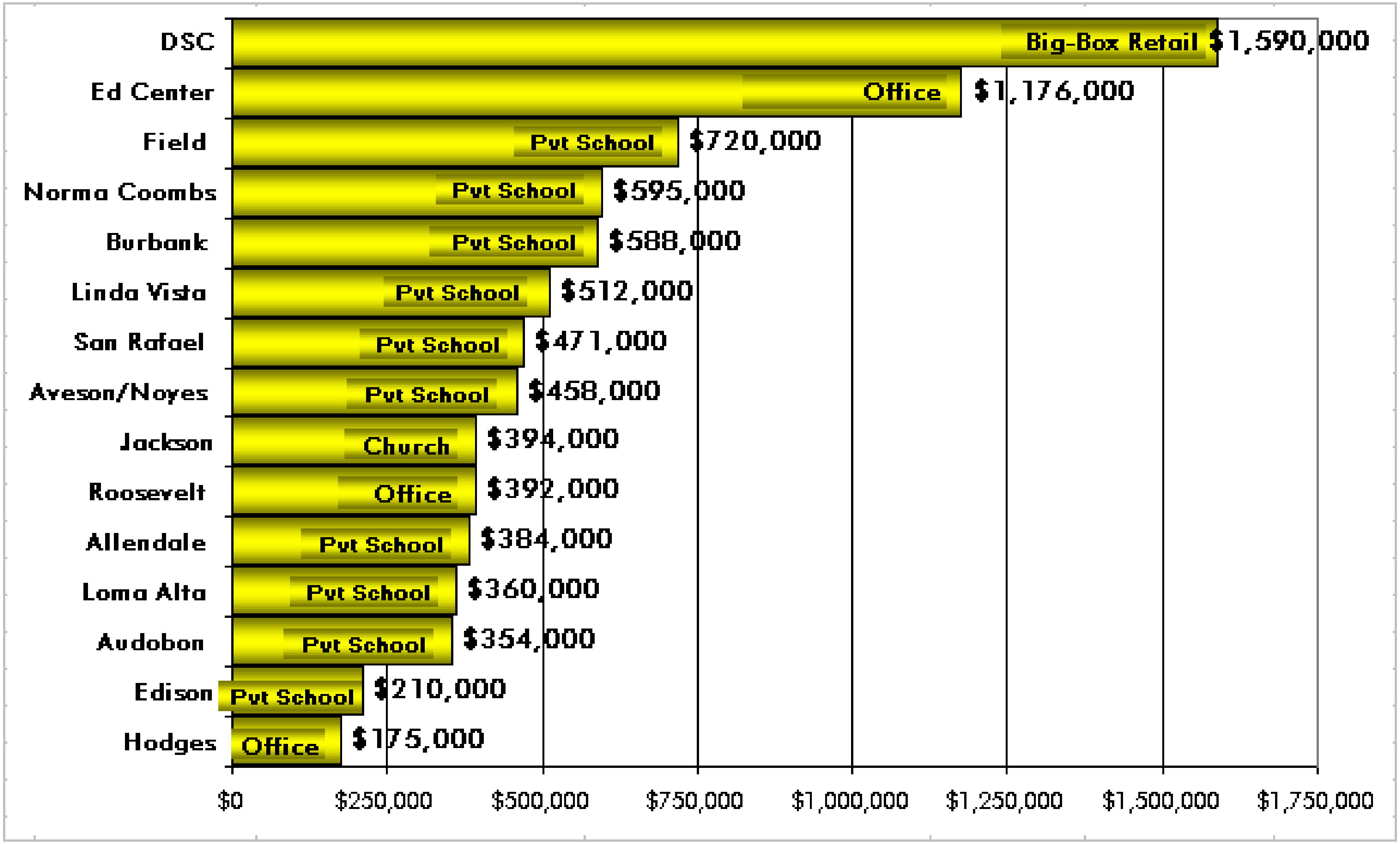
PUSD H&BU Study: Board Presentation

Sites' Locations



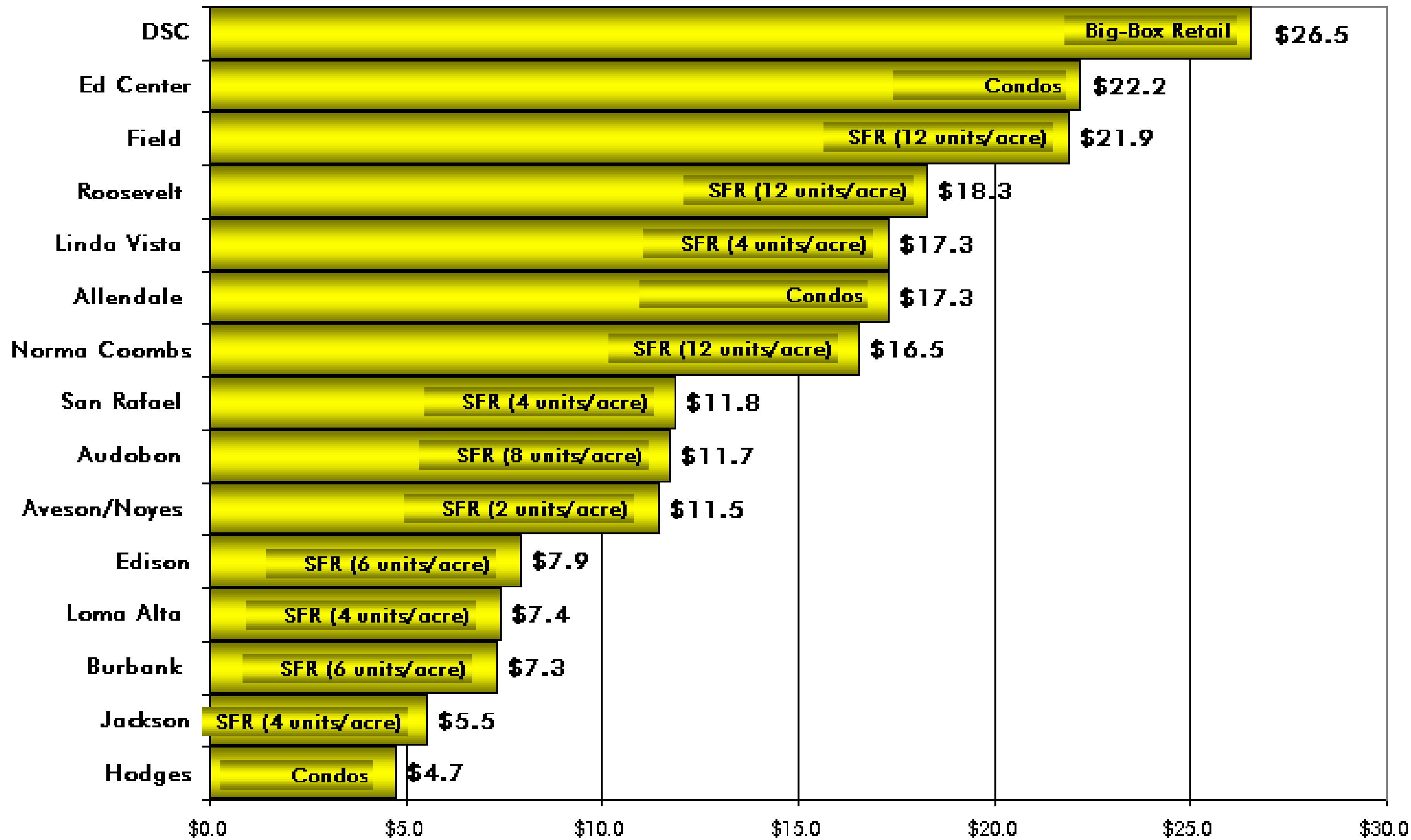
Sites' Value: Potential Lease Revenues

- The DSC and Ed Center each offer potential lease revenues upwards of $1.0 million per year
- Private school is highest reuse for most other sites, except Hodges and Roosevelt (office use)



Sites' Value: Potential Land Values

- The DSC and Ed Center also yield highest gross land values of all target PUSD sites
- Single Family uses highest use for most sites, except, DSC, Ed Center, Allendale and Hodges



DSC / Muir North – Highest Use Profile

- **Site Advantages for a Big-Box**:
  - ✓ Consumer Demand for Big-Box retail (General Merchandise or Building Materials)
  - ✓ Absence of competitive big-box retailers in Pasadena
  - ✓ Unique site availability in Pasadena – large size, excellent access, ready flexible tenant(s)
  - ✓ City and PUSD need the significant new sales tax and ground lease revenues, respectively

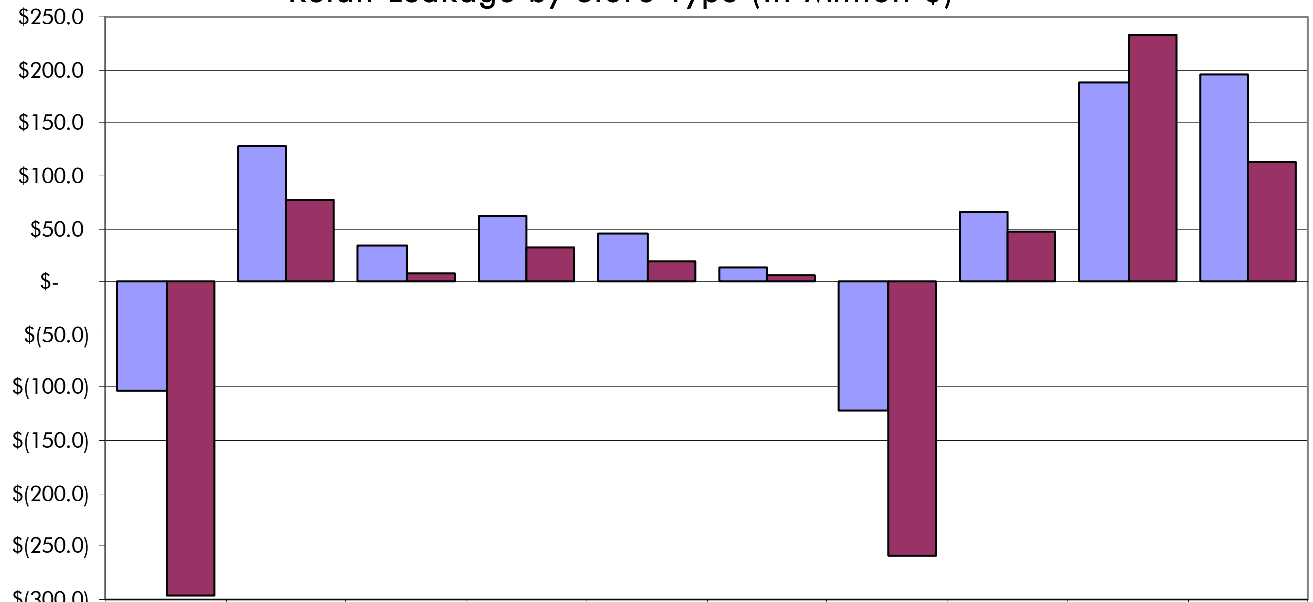
- **Disadvantages for Other Uses**:
  - Weak income characteristics and housing prices in immediate half-mile trade area
  - Existing industrial zoning of northern portion of DSC site, make residential uses market infeasible
  - Not a Class A or B office location, with no significant concentration in vicinity
  - New construction of R&D Flex / industrial park uses may not be feasible at current rent levels

- **Leasing Implications**:
  - Existing temporary structures unsuited for specialized reuses, so any reuse tenant will likely incur construction costs
  - Office, R&D, grocery store anchored shopping center on northern portion of site, and light industrial uses are financially infeasible or inferior to big-box use
  - Factoring in anchor tenant discount, and site premium for a big-box location in this supply constrained market, achievable big-box rent at DSC are assumed at ~$2.00/SF

DSC / Muir North – Retail Demand

- **Retail Demand**:
  - 4-Mile radius average annual household consumer expenditure ~$57,000
  - Consumer retail expenditure = $1.5 billion (City), $2.7 billion (4-mile PUSD catchment)
- **Retail Potential and Supply**:
  - No big-box retail uses (Wal-Mart, Costco, Home Depot, Lowe's) present in the PUSD catchment
  - More than 50% leakage or $297 million in general merchandise category from the 4-mile area
  - Similar leakage equaling $259 million in the building materials category

Retail Leakage by Store Type (In Million $)



	General Merchandise	Clothing	Home Furnishings	Electronics/	Sporting Goods etc.	Other Retail	Building Material	Personal Care Stores	Grocery	Eating/ Drinking Places
Pasadena	(103.0)	128.3	34.5	61.7	45.2	13.7	(121.1)	66.4	187.8	195.2
4-Mile Radius	(296.7)	76.8	7.9	31.8	18.2	5.9	(259.1)	48.2	233.3	113.2

DSC / Muir North – Value

- **Land Value**:
  - $2.00 PSF NNN rent for 150,000 SF store -> Gross Revenues = $3.6 million
  - Capitalized @ 6.75% for credit tenant -> Gross Capitalized Value = $53.3 million
  - Net of transaction costs @ 1.0% -> Net Capitalized Value = $52.8 million (~$350/SF)
  - Less: Development Costs @ ~$135/SF -> Gross Costs = $20.0 million
  - Less: Developer Profit @ 12% -> Profit = $6.3 million
  - **Residual Land Value = $26.5 million (~$39/SF land)**
- **Lease Rate**:
  - Ground Lease Constant = 6.0% of residual land value
  - **Annual Ground Lease Revenues = ~$1.6 million or, ~$2.30 PSF land**
- **Strategic Implications**:
  - Favorable big-box location and significant consumer demand in target retail categories
  - Potential flexibility from tenants to accommodate some existing DSC uses on-site
  - Likely political and/or public resistance to a proposed big box reuse
  - Significant leasehold revenues to PUSD and sales tax revenue to City
  - Given potential sale tax gains, the City may by open to facilitating the entitlement process
  - Existing PUSD uses at DSC would need to be relocated. Nearby Jackson likely target for relocation

Ed Center – Value

- **Land Value for Multi-family redevelopment**:
  - Up to 190 units potential at permissible density, with estimated price for 1,200 SF units at $450/SF
  - Gross Proceeds net of Marketing Costs @ 6.0%, Net Proceeds = $95.9 million
  - Less: Development Costs @ ~$300,000/unit -> Gross Costs = $56.5 million (Includes conservative provision for historic rehab costs at ~$25/SF of existing improvements – may increase substantially)
  - Less: Developer Profit @ 18% -> Profit = $17.3 million
  - **Residual Land Value = $22.2 million (~$120/SF land)**

- **Lease Revenues from Office reuse**:
  - $1.40 to $1.75 PSF NNN rent for ~55,000 rentable SF
  - **Annual Lease Revenues = $0.9 to $1.2 million**
  - Capitalized @ 6.0% -> Gross Capitalized Value = $15.7 to $19.6 million
  - Less: Leasing Commissions @ $9.75/SF and TI’s from $30 to $60/SF
  - **Net Capitalized Lease Revenues = ~$13.5 to $15.7 million or, ~$73 to $86 PSF land**

- **Strategic Implications**:
  - Highest per acre disposition value, and potential leasehold revenues next only to DSC
  - PUSD must move its offices to an alternative location to realize the significant opportunity cost
  - Under reuse option, the highest use would be specialty or general office depending on TI’s required
  - Under disposition option, MFR residential is highest use, contingent on actual historic rehab costs
  - Roosevelt or Jackson are likely candidates for relocation of Ed Center’s PUSD offices

Allendale – Value

- **Land Value for Multi-family redevelopment**:
  - Up to 105 units potential at permissible density, with estimated price for 1,200 SF units at $425/SF
  - Gross Proceeds net of Marketing Costs @ 6.0%, Net Proceeds = $50.3 million
  - Less: Development Costs @ ~$230,000/unit (w/ surface parking) -> Gross Costs = $24.0 million
  - Less: Developer Profit @ 18% -> Profit = $9.1 million
  - **Residual Land Value = $17.3 million (~$120/SF land)**
- **Lease Revenues from School reuse**:
  - $1.75 PSF NNN rent for ~18,300 rentable SF
  - **Annual Lease Revenues = $384,000**
  - Capitalized @ 6.0% -> Gross Capitalized Value = $6.4 million
  - Less: Leasing Commissions @ $9.75/SF and TI's @ $15/SF
  - **Net Capitalized Lease Revenues = ~$5.9 million or, ~$42 PSF land**
- **Strategic Implications**:
  - Potential leasehold revenues not among the top 10 of target PUSD sites
  - High density, surrounding uses and location factors provide significant market potential for MFR
  - Given that the District has little intention of continuing the school operations after the next two years, there is potential revenue for PUSD of $17.0 million upon sale

Residential Profile and Achievable Prices

- Except DSC, Jackson and Ed Center, most sites located in primarily residential neighborhoods
- Ed Center, Allendale, Roosevelt and Hodges located have significant multi-family concentration in vicinity
- Hodges, Jackson, DSC, Roosevelt, Ed Center, Audobon and Edison located in relatively lower-income neighborhoods
- Linda Vista, San Rafael and Noyes located in premium value locations with ~$1 million median home value
- Roosevelt, Field, Norma Coombs, Burbank and Loma Alta may get above average SFR prices

	SURROUNDING USES'		INCOME & HOME PRICE		PRICING RANGE	
	Surrounding Uses' Zoning	Max. DU's per Acre	Household Avg. Income	Median Home Value	Sales Comparables	Estimated for Sites
Linda Vista	RS4, RS2	4	$249,345	$1,000,000	450-575	550-650
San Rafael	RS1, RS2, RS6	12	$182,059	$1,000,000	475-625	475-650
Ed Center	RM48, PD24, PS	48	$84,084	$401,363	350-550	450-600
Allendale	RM32, RS6, OS	32	$113,390	$898,401	350-475	425-550
Aveson/Noyes	RS 20000	2	$179,563	$997,324	350-475	450-550
Roosevelt	PD 22, RM 16	12	$75,333	$530,768	325-525	450-525
Field	OS, RS6, PS	12	$131,198	$734,029	375-475	425-475
Norma Coombs	OS, RS6	12	$113,557	$664,315	375-475	425-475
Burbank	R1 7500-20000	6	$121,521	$789,542	350-475	400-475
Edison	R1 7500	6	$90,767	$487,206	250-400	400-475
Hodges Daycare	C-3D, C-3C, RM-32	32	$50,992	$432,401	250-450	350-450
Loma Alta	R1 10000	4	$118,538	$619,216	275-400	375-425
Audobon	R1 7500, R3, RS4, C2	12	$82,663	$482,066	275-400	350-425
Jackson	R2, CM	4	$69,858	$437,692	200-350	350-425
District Service Ctr	CM, PS, RS6	12	$72,997	$455,132	200-350	300-400

San Rafael, Linda Vista & Noyes – Value

- **Potential Land Value for Low-Density Single-Family redevelopment**:
  - $11.0 million each from San Rafael and Noyes, and
  - $17.0 million from Linda Vista

	Linda Vista	San Rafael	Noyes
Site Specifics:			
Site Area	4.9	3.2	7.6
Permiited Density - DU's/Acre	4	4	2
# Units	19	13	15
Pricing:			
Avg. Home Size - SF	3,600	3,600	3,600
Unit Price - $/SF	600	600	550
Home Price - $	2,160,000	2,160,000	1,980,000
Residual Land Value:			
Net Proceeds - Million $	38.6	26.4	27.9
Development Costs - Million $	14.3	9.8	11.4
Developer Profit - Million $	6.9	4.8	5.0
Residual Land Value - Million $	**17.3**	**11.8**	**11.5**
Per SF Land	*81.96*	*84.96*	*34.77*

- **Lease Revenues from School reuse**:
  - Each has similar net rentable area
  - **Annual Lease Revenues range from $450,000 to $550,000**
  - **Net Capitalized Lease Revenues = ~$7.0 to $8.1 million**

- **Strategic Implications**:
  - These premium single-family sites have land values well in excess of the capitalized rent from reuse
  - PUSD projects limited need for additional school sites in the future due to little enrollment growth
  - PUSD can capitalize on its surplus sites as a revenue source by selling them for redevelopment
  - Given relatively low ground lease revenue potential, PUSD should consider Linda Vista, San Rafael and Aveson/Noyes for disposition

Field, Norma Coombs, Roosevelt – Value

- **Potential Land Value for Moderate-Density (12 DU's/acre) Single-Family redevelopment**:
  - $70 to $80 per SF land for each site
  - $21.9 million for Field, $18.3 million for Roosevelt, and $16.5 million for Norma Coombs
- **Lease Revenues from highest reuse**:
  - Field and Norma Coombs (Private school) – $720,000 and $600,000, respectively
  - Roosevelt (General or Specialty Office) - $330,000 to $390,000

	Field	Norma Coombs	Roosevelt
Site Specifics:			
Site Area	6.8	5.2	5.3
Permiited Density - DU's/Acre	12	12	12
# Units	82	62	64
Pricing:			
Avg. Home Size - SF	1,800	1,800	1,800
Unit Price - $/SF	425	425	450
Home Price - $	765,000	765,000	810,000
Residual Land Value:			
Net Proceeds - Million $	59.0	44.6	48.7
Development Costs - Million $	26.5	20.0	21.7
Developer Profit - Million $	10.6	8.0	8.8
Residual Land Value - Million $	**21.9**	**16.5**	**18.3**
Per SF Land	*73.84*	*73.11*	*79.24*

- **Strategic Implications**:
  - Campus Consolidation – At 6.8 acres, Field has a large enough campus site to accommodate additional transfers from another PUSD site to relocate here
  - The best target for such consolidation would be Norma Coombs, located closest to Field
  - Following consolidation, the surplus Norma Coombs can potentially offer more than $500,000 in annual lease revenues, or sell for a very high land value of $16.5 million.
  - While sites could also be relocation targets for PUSD's DSC/Ed Center operation, their high reuse value makes such strategy financially inefficient
  - If PUSD does not sell Roosevelt, it would be a candidate for relocation of DSC/Ed Center operation

Financial Analysis Limiting Conditions

- Leases typically call for periodic **rent increases** to account for inflation as well as appreciation
- During recessionary and/or tight credit periods, **developers prefer land ownership** over ground leasing due to the greater challenge of financing development on leased parcels
- Sale: Preliminary values assume a fee simple sale to a developer
- **PUSD will prefer ground leasing** sites to benefit from the more extensive possibilities in the Education Code governing use of such proceeds
- In cases where for-sale residential is the highest and best use of a site, **ground leasing will result in lower value SFR use**, due to resistance in the market to acquire homes on leased land
- Preliminary values assume **achievable density** based on adjacent uses, and existing height limits
- **Planned Unit Development** (which may increase the achievable density) opportunity not reflected
- The per site and per unit value estimates **assume entitlement** for highest and best use
- For multi-family uses, allowance is made in prices/rents for the City's **inclusionary housing** requirement
- Depending on results from **detailed engineering studies** for off-site costs, demolition fees, and historic rehab costs, estimated preliminary values may vary significantly
- Preliminary values do not reflect feedback from **community hearings** or discussions with architects and engineers, which have not yet been held

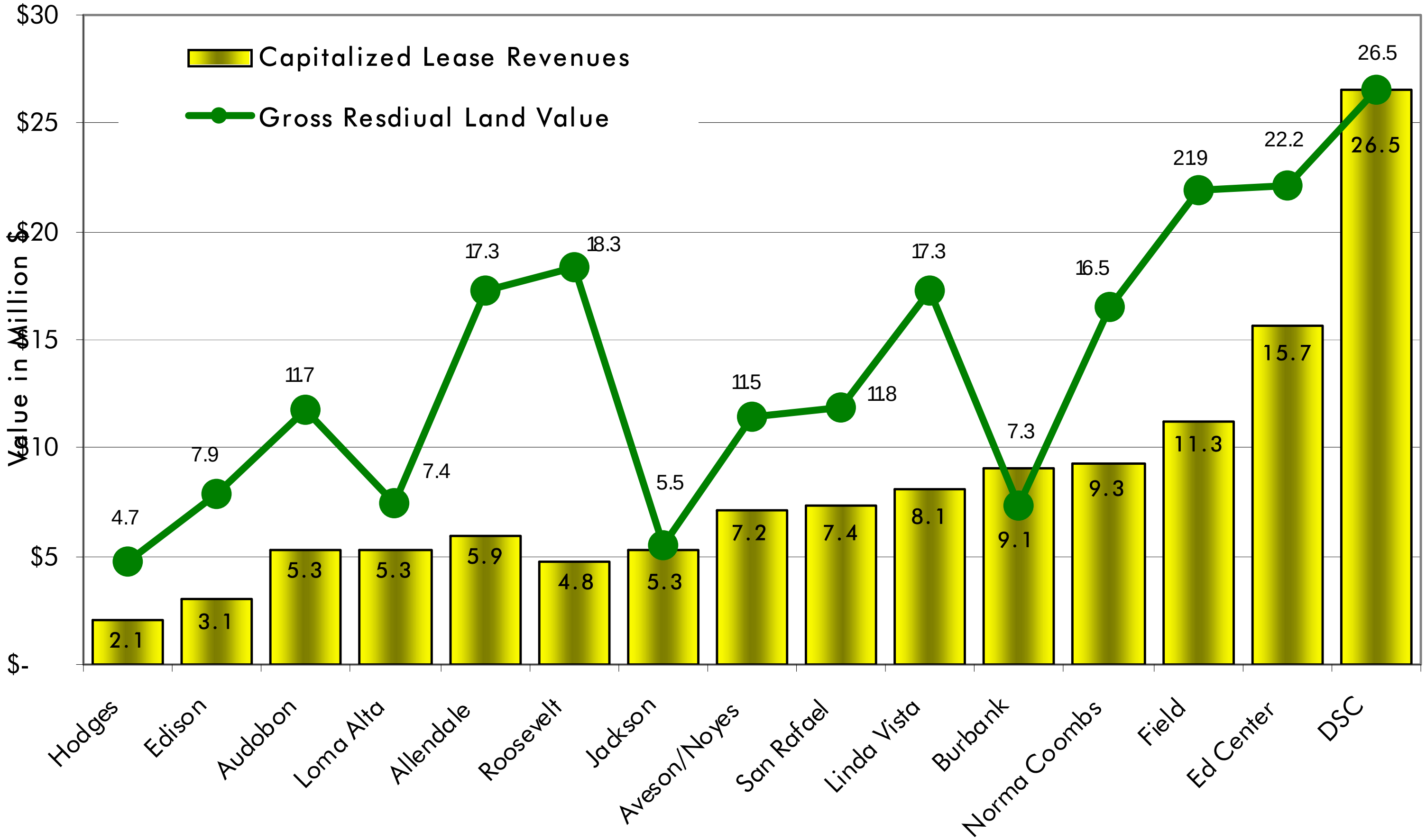
Reuse Scenario: Lease Revenues per SF

- **School reuse** – Most likely reuse for most PUSD sites
- **Pre-K/Day Care reuse** – Would likely co-locate with other uses
- **Commercial & Institutional reuse –**
  - Most sites suitable for general or specialty office reuse than retail.
  - Specialty office will pay a premium of ~25 cents
  - DSC’s ground rent computed based on residual land value for a large format retail store
  - On many sites, a church reuse is possible

	Rent Range	TI's required	Max. Size SF
School Reuse	$1.00 - $2.25	~$15	30,000
Pre-K/Day Care	$1.00 - $2.65	~$15	10,000
Commercial -			
Office	$0.75 - $1.70	~$30 - $60	n.a.
Retail	~$2.30	~$15 - $30	n.a.
Industrial	$0.40 - $0.60	~$5	n.a.
Church/Others	~$1.00	~$30	n.a.

Disposition Values

- **$25.0 Million+ Site**: District Service Center's at ~$26.5 million (Big-Box use)
- **$15.0 to $25.0 Million Sites**:
  - Ed Center, Field, Roosevelt, Allendale, Linda Vista and Norma Coombs
  - Each has a residual land value more than $70 per land square feet
- **$10.0 to $15.0 Million Sites**: San Rafael, Noyes and Audobon (low density SFR)
- **Less than $10.0 Million Sites**: Hodges, Jackson, Loma Alta and Burbank are among the least valuable



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Comparison: Reuse vs. Disposition

- Absent any policy limitations/consideration, comparing Residual Land Value and Net Capitalized Lease revenue informs a sale vs. lease decision
- 'Opportunity cost' from leasing very high for most sites – prominently, Allendale, Linda Vista, Ed Center, San Rafael, Roosevelt, Field, Norma Coombs, Noyes and Audobon

Rank by Annual Lease Revenues	Site Address	Land Area Acres	LEASE Scenario Under Policy Limitation Value (in Millions) Annual	Capitalized	SALE Scenario Site Disposition Value (in Millions)
1	DSC / Muir North	15.7	$1.59	$26.5	$26.5
2	Ed Center	4.2	$1.18	$15.7	$22.2
3	Field	6.8	$0.72	$11.3	$21.9
4	Norma Coombs	5.2	$0.60	$9.3	$16.5
5	Burbank	4.8	$0.59	$9.1	$7.3
6	Linda Vista	4.9	$0.51	$8.1	$17.3
7	San Rafael	3.2	$0.47	$7.4	$11.8
8	Aveson/Noyes	7.6	$0.46	$7.2	$11.5
9	Jackson	4.7	$0.39	$5.3	$5.5
10	Roosevelt	5.3	$0.39	$4.8	$18.3
11	Allendale	3.3	$0.38	$5.9	$17.3
12	Loma Alta	5.6	$0.36	$5.3	$7.4
13	Audobon	5.9	$0.35	$5.3	$11.7
14	Edison	4.4	$0.21	$3.1	$7.9
15	Hodges Daycare	1.0	$0.17	$2.1	$4.7

Other Strategic Implications

- **Relocation Targets (Roosevelt and Jackson) –**
  - Otherwise middle/lower tier leasehold value
  - The most likely candidates for relocation of DSC and Ed Center’s PUSD operations
  - Roosevelt and Jackson better relocation targets than the alternative sites located in residential neighborhoods
    - Alternative sites are located in residential neighborhoods, which may be non-conforming to relocated uses
    - Bus/truck access to the site and proximity to some retail commercial uses is necessary for relocation operations
- **Retain for Leasing (Loma Alta, Burbank and Edison) –**
  - The difference between land sale value and net capitalized lease value is minimal
  - So, lease to private school tenants as disposal involves more hassle and less flexibility fro PUSD
- **Other Disposition Target** – Though not as prime a SFR site as the Linda Vista, San Rafael and Noyes, Audobon has significantly higher value upon disposition than leasing as well.
- **City of Pasadena –**
  - The City of Pasadena currently occupies ~74,000 SF, located in 8 separate properties
  - PUSD could accommodate all of the city's office uses at 2 properties – the Ed Center (~ 70,000 SF) for the CBD and east Pasadena uses, and Hodges Daycare (~13,500 SF) for the NW Pasadena uses
  - City as a "pre-leased" tenant would mitigate the conversion risk as no downtime with City, and it’s a stable, high-credit tenant

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