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**GENERAL PLANNING CONSULTANT
TECHNICAL MEMORANDUM 89.4.8
ECONOMIC SENSITIVITY IMPACT
OF ASSESSMENTS ON PROPERTY OWNERS
(REVISED)**

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**Prepared for:
Southern California Rapid Transit District**

**Prepared by:
Schimpeler • Corradino Associates
in association with
Cordoba Corporation**

June, 1989

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TABLE OF CONTENTS

1.0 INTRODUCTION 1

2.0 IMPACT OF BENEFIT ASSESSMENT 2

2.1 MEASURES OF IMPACT 2

2.2 PROTOTYPICAL CASES 9

3.0 CONCLUSIONS 16

LIST OF TABLES AND FIGURES

Table 1	Present Value Factors for Assessed Property Recovery of Assessments within 18 Months for Various Escalation Rates and Investment Rates .	6
Figure 1	Current Office Lease Rates, Station-by-Station	8
Table 2	SCRTD Phase II Benefit Assessment District Impact Valuation Prototypical Building Office	11
Table 3	SCRTD Phase II Benefit Assessment District Impact Valuation Prototypical Building Office	12
Table 4	SCRTD Phase II Benefit Assessment District Impact Valuation Prototypical Building Office	13
Table 5	SCRTD Phase II Benefit Assessment District Impact Valuation Prototypical Building Office	14
Table 6	SCRTD Phase II Benefit Assessment District Impact Valuation Prototypical Building Retail/Restaurant	15

1.0 INTRODUCTION

The Southern California Rapid Transit District (SCRTD) proposes to set up Benefit Assessment Districts in the vicinity of stations located in Phase II, the second major segment of Metro Rail. Benefit assessment is a method designed to fund a portion of Metro Rail construction costs through the private sector. Benefit assessment is based on the concept that benefits accrue to property located near transit stations and that a portion of these benefits can be captured to fund Metro Rail construction. Benefits are in the form of improved access to property, less dependence on the automobile, and enhanced development potential.

The SCRTD has established two Benefit Assessment Districts for the first segment of Metro Rail:

- 1) Benefit Assessment District A1. The area proximate to the four stations located in the Central Business District of downtown Los Angeles: Union Station; Civic Center Station; Hill Street and Fifth Street Station; and the Seventh Street and Flower Street Station.
- 2) Benefit Assessment District A2. The area proximate to the station located at Wilshire Boulevard and Alvarado Street.

The process of establishing Benefit Assessment Districts for Phase II stations is well under way. The purpose of this report is to develop a method to determine a threshold level of annual net rental rate at which a given assessment rate is judged to have an adverse impact on property owners.

An extensive appeals mechanism is in place for MOS-1 appeals and exemption cases. It is anticipated the same mechanism will be used for Phase II appeals cases.

Metro Rail is an important element in providing more effective and efficient transportation to the Los Angeles region. The first 4.4 mile phase of Metro Rail is under construction and scheduled to open to revenue service in 1993. Phase II is the 12.9 mile second segment which extends Metro Rail to Wilshire Boulevard and Western Avenue toward the west and to North Hollywood toward the north. In addition to the subway alignment of Metro Rail, the Long Beach - Los Angeles and Norwalk - El Segundo light rail lines are under construction. These are scheduled to open in 1991 and 1994 respectively.

2.0 IMPACT OF BENEFIT ASSESSMENT

The Urban Mass Transit Administration (UMTA) requires that communities provide a local share of the construction cost of transit improvements. Local shares of Metro Rail construction costs are provided by the State of California, the City of Los Angeles, the Los Angeles County Transportation Commission (LACTC) and the private sector through the Benefit Assessment District program. The funding package for MOS-1 includes \$130.3 million through Benefit Assessment. The proposed funding package for Phase II includes \$75 million through Benefit Assessment.

The Benefit Assessment Task Force (BATF) has been meeting regularly to define the program for Phase II. This report presents a method to analyze the impact of the assessments on property owners in the Phase II station areas.

For a majority of property owners, the impact of the assessment will be minor. For example, an assessment of 24 cents per year or 2 cents per month amounts to a two percent increase for a gross lease rate of \$1.00 per month per square foot.

There are three types of leases: triple net; full gross; and gross plus. In a triple net lease, the owner charges the tenant a net rate of so many dollars per square foot per month and the tenant pays all expenses such as utilities, maintenance, pro-rata insurance, assessments, etc. In full gross leases, the owner charges the tenant a monthly rate per square foot from which the owner pays all expenses such as utilities, maintenance, insurance, assessments, etc. In gross plus leases, the tenant pays the equivalent of a full gross lease during the first year of occupancy while in subsequent years, the tenant pays also for any increases in the costs of utilities, maintenance, insurance, assessments, etc. The lease includes provisions for increasing the lease rate at prescribed intervals. Increases may be negotiated percentage increases or tied to growth in the Consumer Price Index.

Thus, assessments on properties leased under terms of triple net or gross plus have no impact on property owners because assessments are passed on directly to tenants. Only owners with property leased under full gross terms will experience an impact due to assessments because the assessment cannot be passed on directly to tenants until the lease is renegotiated. In the interim, the recovery of assessment fees is limited to annual percentage increases in lease rates as specified in the leasing agreement. Moreover, the recovery of fees is limited to increases in the net portion of the lease rate because increases in the expense portion of the lease rate are geared to cover increased expenses.

In this paper, lease rates are expressed in terms of the net portion of the lease rate which may be adjusted to the full gross rate, if desired.

2.1 MEASURES OF IMPACT

One measure of the impact of assessments on property owners is the number of years required for inflation to compensate the owner for the assessment. Previous studies have suggested that an assessment which takes more than 1.5 years to recover could impose a

hardship on the property owner who is not able to recover the assessment directly from tenants. (See Economic Analysis of Metro Rail Benefit Assessment in Downtown Los Angeles, the City of Los Angeles Community Redevelopment Agency and Kotin, Regan and Mouchly, Inc., February, 1985.)

There are several factors to consider in developing a model to calculate the annual net rental rate at the time of first assessment which will escalate sufficiently to recover the assessment:

- 1) The Consumer Price Index has been fluctuating about the 4% value for several years in the Los Angeles - Long Beach region. Representative rates of 3%, 4%, and 5% annually are used in this study. The study cited above used a single rate of 4%.
- 2) The annual return on investment given up to pay the assessment. Annual rates of 0%, 5%, and 10% were selected for this analysis. A property owner may be satisfied simply to recover the assessment at 0% return if the funds can be recovered in as little as 18 months. The study cited above used an investment rate of 0%.
- 3) The amount of assessment varies as a function of the dollars to be raised for Metro Rail construction and the number of square feet of assessable property. The model is derived in terms of an assessment of \$1.00 per square foot. The model output multiplied by the proposed assessment yields the break even initial annual net rental rate.
- 4) The number of assessments to be paid is a function of when the assessments start and what instruments are used to generate the funds when needed for construction, i.e. pay as you go, revenue anticipation notes of 1 or 2 years duration or long term bonds with maturities ranging from 5 to 20 years.

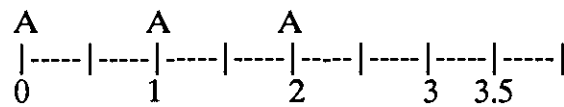
In the derivation of the model, the following nomenclature is used:

i = the annual escalation rate
 r = the annual rate of return
 n = the number of equal, annual assessments
 P = the initial annual net rental rate in \$/square foot.

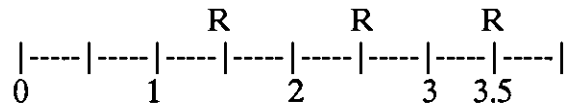
Assumptions are:

- 1) The first assessment is paid at the start of the first year.
- 2) Each assessment is recovered 1.5 years after payment at interest rate r .
- 3) P increases in value at rate i .
- 4) Cash flow equivalence is calculated as of 1.5 years after the final assessment.
- 5) The initial annual net rental rate, P , is expressed in terms of dollars per assessable square foot.

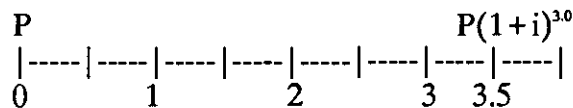
The model is derived below by solving for $n=3$ and generalizing for any n . The cash flow of the assessment payments (A) is shown as:



while the recovery (R) cash flow is shown as:



where each $R = A(1+r)^{15}$. The value of P at time 0 escalates as follows:



P is defined as the initial annual rental rate. However, the rent is paid monthly rather than annually. The rent is increased on an annual basis, generally as a function of the Consumer Price Index adjusted for the area. Thus, the rent is uniform for 12 months and after an adjustment for escalation is uniform for the next 12 months. The increase in rent may occur at any time in relation to the payment of an assessment fee. An owner may pay the assessment fee today, have a rent adjustment take place tomorrow, and have 18 months of increased rent to recover the assessment within 18 months. On the other hand, an owner may have a rent adjustment today, pay the assessment fee tomorrow, and have only 6 months of increased rent to recover the assessment within 18 months.

On average, individual owners will have 12 months of increased rent to recover the assessment within 18 months. The assumption is that when an assessment is paid, it has been 6 months since the last rent increase and 6 months before the next rent increase. Thus, the value of P in the above cash flow diagram remains unchanged for the first 6 months and then increases by the annual escalation rate for each of the next 3 years.

At $n = 3.5$ years, set the increase in the value of P due to escalation equal to the assessments recovered at rate r for $A = \$1$:

$$P(1+i)^{30} - P = (1+r)^{35} + (1+r)^{25} + (1+r)^{15}$$

Factor out P and $(1+r)^{15}$:

$$P[(1+i)^{30} - 1] = (1+r)^{15} [(1+r)^2 + (1+r)^1 + 1]$$

Multiply and combine terms in brackets:

$$= (1+r)^{15} [r^2 + 3r + 3]$$

Multiply and divide by r and add and subtract 1 from the numerator to complete the square:

$$= (1+r)^{15} [(r^3 + 3r^2 + 3r + 1 - 1)/r]$$

$$P[(1+i)^{30} - 1] = (1+r)^{15} [((1+r)^3 - 1)/r]$$

Solve this expression for P:

$$P = (1+r)^{15} [((1+r)^3 - 1)/r] [1/((1+i)^{30} - 1)]$$

Generalize for any n:

$$P = (1+r)^{15} [((1+r)^n - 1)/r] [1/((1+i)^n - 1)]$$

The second term in this expression is the uniform series compound amount factor. The uniform series compound amount factor represents the future value of a uniform series of end-of-year payments of \$1 after n years at investment rate, r. This term is undefined if r equals zero. However, the limit as r approaches zero is n. Table 1 presents solutions to this expression for 3 values of i, 3 values of r and several values of n. The tabular values represent the annual net rental rate at the time of the first assessment for which assessments of \$1 per square foot are recovered at various investment rates within 1.5 years by escalation of rental rates. As an example of how to use Table 1, if:

$$\begin{aligned} i &= 4\% \text{ annually} \\ r &= 0\% \text{ annually} \\ n &= 6 \text{ assessment years at } \$0.22 \text{ per square foot,} \end{aligned}$$

the tabular value of P is \$22.61. Multiply tabular P by the assessment rate of \$0.22 to yield the initial annual net rental rate of \$4.98 per assessable square foot. This is equivalent to a net lease rate of \$0.41 per month per square foot.

The interpretation of this result is that the assessment stream will impose a hardship on a property owner who cannot pass the assessment on directly to tenants (the case for a full gross lease) if the net portion of the lease rate is less than \$4.98 per square foot. The gross lease rate is calculated by adding the annual costs of operations and maintenance, property taxes, and assessments if applicable. If the net portion of the lease rate is \$4.98 or more per square foot, no adverse impact to the property owner is assumed because the

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TABLE 1
PRESENT VALUE FACTORS FOR ASSESSED PROPERTY
RECOVERY OF ASSESSMENTS WITHIN 18 MONTHS
FOR VARIOUS ESCALATION RATES AND INVESTMENT RATES

NUMBER OF ASSESSMENT YEARS	ESCALATION RATE 3.0%			ESCALATION RATE 4.0%			ESCALATION RATE 5.0%		
	INVESTMENT RATE			INVESTMENT RATE			INVESTMENT RATE		
	0.0%	5.0%	10.0%	0.0%	5.0%	10.0%	0.0%	5.0%	10.0%
1	33.3333	35.8643	38.4563	25.0000	26.8982	28.8422	20.0000	21.5186	23.0738
2	32.8407	36.2177	39.7824	24.5098	27.0301	29.6905	19.5122	21.5186	23.6366
3	32.3530	36.5791	41.1823	24.0261	27.1645	30.5830	19.0325	21.5186	24.2266
4	31.8703	36.9487	42.6605	23.5490	27.3015	31.5220	18.5609	21.5186	24.8451
5	31.3924	37.3268	44.2218	23.0784	27.4411	32.5100	18.0975	21.5186	25.4935
6	30.9195	37.7134	45.8712	22.6143	27.5833	33.5499	17.6421	21.5186	26.1733
7	30.4515	38.1089	47.6142	22.1567	27.7282	34.6444	17.1948	21.5186	26.8859
8	29.9884	38.5132	49.4563	21.7056	27.8758	35.7965	16.7555	21.5186	27.6329
9	29.5302	38.9267	51.4038	21.2609	28.0262	37.0094	16.3242	21.5186	28.4159
10	29.0768	39.3495	53.4631	20.8227	28.1793	38.2864	15.9009	21.5186	29.2368
15	26.8833	41.6100	65.6949	18.7279	28.9871	45.7655	13.9027	21.5186	33.9741
20	24.8105	44.1337	81.9708	16.7909	29.8682	55.4750	12.0970	21.5186	39.9671
25	22.8566	46.9483	103.7340	15.0075	30.8260	68.1111	10.4762	21.5186	47.5462

SOURCE: SCRFD AND GENERAL PLANNING CONSULTANT

- NOTES: 1) PRESENT DEFINED AS DATE FIRST ANNUAL ASSESSMENT IS DUE.
 2) TABULAR FACTOR IS THE ANNUAL RENTAL RATE IN DOLLARS PER SQUARE FOOT OF ASSESSED AREA FOR EACH DOLLAR OF ASSESSMENT PER SQUARE FOOT. MULTIPLY THE TABULAR VALUE BY THE ASSESSMENT TO DETERMINE THE BREAK-EVEN ANNUAL RENTAL RATE FOR THE ACTUAL ASSESSMENT.
 3) FOR A GIVEN PROPERTY, THE ASSESSMENT IS RECOVERED WITHIN 18 MONTHS IF THE ANNUAL RENTAL RATE IS EQUAL TO OR GREATER THAN THE BREAK-EVEN VALUE AS CALCULATED IN NOTE 2.

assessment amounts are recovered within 18 months through escalation of the lease rate. Of course, a threshold annual net rental rate must be determined for the assumed values of escalation and investment rates and for the proposed assessment strategy as finally adopted by the SCRTD.

Data on current office lease rates are presented in Figure 1 for each station area in the Phase II Benefit Assessment District. The lease rates are in terms of full gross leases. The rates are given from observed low to high annual rates per square foot and are derived from data published for 1989 by Building Owners and Manager's Association.

The lowest lease rate on Figure 1 is \$12 per square foot in the Hollywood-Vine Station area. If one assumes that expenses are 30% of the net portion of the lease, the net portion of the lease rate is about \$9.23 per square foot. In the example above for 6 assessments and an escalation rate of 4%, the annual breakeven assessment rate would be \$0.408. This rate is much higher than that required to raise \$75 M in funds for Metro Rail construction by any of several financing strategies studied thus far.

An alternative view is to calculate the percentage increase in the net portion of the annual lease rate which is required to recover the assessment within the prescribed 18 month period. In the above example, the breakeven annual rental rate is \$4.98 net per square foot and the assessment rate is \$0.22 per square foot for six years. The required annual percentage increase is calculated as follows:

$$\% = \left(\frac{\text{BARR} + n * A}{\text{BARR}} \right)^{(1/n) - 1} * 100$$

$$\% = \left(\frac{4.98 + 6 * 0.22}{4.98} \right)^{(1/6) - 1} * 100$$

$$\% = 4\%$$

where: BARR = Breakeven Annual Rental Rate
 A = Annual Assessment
 n = Number of Assessments.

Note that in this example case, the required percentage increase in the breakeven annual net rental rate is the assumed escalation rate of 4%. The interpretation is that if the required percentage increase is less than the escalation rate, the owner will more than recover the assessment within the prescribed 18 month period. If the percentage increase is greater than the escalation rate, the owner will not recover the assessment within 18 months. Again, these comments refer only to full gross leases where assessments may not be passed on directly to tenants.

**FIGURE 1
CURRENT OFFICE LEASE RATES
STATION BY STATION**

WILSHIRE-VERMONT STATION	
Current Station Area Office Lease Rate	\$14.40 to \$21.00 per sq. ft.
WILSHIRE-NORMANDIE STATION	
Current Station Area Office Lease Rate	\$15.00 to \$22.20 per sq. ft.
WILSHIRE-WESTERN STATION	
Current Station Area Office Lease Rate	\$18.00 to \$23.40 per sq. ft.
VERMONT-BEVERLY STATION	
Current Station Area Office Lease Rate	\$15.00 tu \$16.20 per sq. ft.
VERMONT-SANTA MONICA STATION	
Current Station Area Office Lease Rate	\$15.00 to \$16.20 per sq. ft.
VERMONT-SUNSET STATION	
Current Station Area Office Lease Rate	\$15.00 to \$16.20 per sq. ft.
HOLLYWOOD-WESTERN STATION	
Current Station Area Office Lease Rate	\$15.00 to \$16.20 per sq. ft.
HOLLYWOOD-VINE STATION	
Current Station Area Office Lease Rate	\$12.00 to \$16.20 per sq. ft.
HOLLYWOOD-HIGHLAND STATION	
Current Station Area Office Lease Rate	\$15.00 to \$17.40 per sq. ft.
UNIVERSAL CITY STATION	
Current Station Area Office Lease Rate	\$21.00 to \$33.00 per sq. ft.
NORTH HOLLYWOOD STATION	
Current Station Area Office Lease Rate	\$15.00 to \$18.60 per sq. ft.

- Notes: 1) Data are in terms of Annual Full Gross Lease Rates.
 2) Data extracted from Technical Memorandum 89.4.4, Preliminary Estimate of Monetary Benefits, Phase II Metro Rail Stations, 1989-2020.
 3) Data Source: 1989 Office Market Journal of Greater Los Angeles published by Building Owners and Managers Association (BOMA).

In the event that the investment rate, r , is assumed to be non-zero, a modification is required in the above expression for % increase. The value (V) of the assessment stream 18 months after the final assessment, is calculated as:

$$V = A[(1 + r)^{15} * \frac{(1+r)^n - 1}{r}]$$

$$\% = \left(\frac{\text{BARR} + V}{\text{BARR}} \right)^{(1/n) - 1} * 100$$

Thus, for a given assessment over several years, breakeven net lease rates may be calculated for assumed values of escalation and investment rates. A comparison of the net portion of actual full gross lease rates with the breakeven net lease rate from Table 1 will determine those properties adversely impacted by the assessment. Alternatively, the required percentage increase in the net annual lease rate may be calculated and compared with the assumed escalation rate to determine those properties adversely impacted by the assessment. In this instance, the net portion of the actual lease rate is entered in the above expression for % increase rather than the breakeven lease rate as shown in the example above.

2.2 PROTOTYPICAL CASES

A simple computer model used to analyze prototypical cases was developed by Kotin, Regan and Mouchly, Inc. and presented in a 1985 paper by the Los Angeles Community Redevelopment Agency. (Referenced in Section 2.1) This program was adapted for use in this study.

Data for several properties were determined and entered into the model. The solutions are presented in Tables 2 through 6. At the bottom of each Table, the recovery of assessment is shown for both impact measures:

- 1) Offsetting revenue increase. The percentage revenue increase is calculated as follows (refer to Table 2 for numeric values):

$$\% \text{ Inc.} = \frac{\text{Annual Assessment}}{\text{Gross Income} - \text{Operating Expenses}} * 100$$

$$\% \text{ Inc.} = \frac{54256}{3797942 - 1139383} * 100$$

$$\% \text{ Inc.} = 2.04\%$$

- 2) Months to prior cash flow level. The number of months is calculated based on the average case of no recovery in the first six months after the assessment. The calculation is as follows (refer to Table 2 for numeric values):

$$\text{Months} = \left(\frac{\text{Annual Assessment}}{(\text{Gross Income} - \text{Operating Expenses}) * \text{Inflation rate}} \right) * 12 + 6$$

$$\text{Months} = \left(\frac{54256}{(3797942 - 1139383) * 0.04} \right) * 12 + 6$$

$$\text{Months} = 12.12 \text{ months}$$

Note that recovery of the assessment is based on inflation of the net portion of the lease rate.

For each of the cases illustrated here, the economic impact is not considered adverse because assessments are recovered through inflation well within the 1.5 year threshold value. The property represented by Table 6 is not applicable to the study because the lease is a triple net as opposed to a full gross lease. However, the case is shown for illustrative purposes. Note the land area is larger than the gross building area and is used in calculating the annual assessment.

TABLE 2

SCRTD PHASE II
 BENEFIT ASSESSMENT DISTRICT IMPACT VALUATION
 PROTOTYPICAL BUILDING
 OFFICE

	INPUT VALUE	CURRENT PRO FORMA	ADJUSTED PRO FORMA
LAND AREA (SQ. FT.)	33454		
GROSS BUILDING AREA (SQ. FT.)	226068		
NET RENTABLE AREA (SQ. FT.)	226068		
CAPITALIZATION RATE	9.5%		
INFLATION RATE	4.0%		
ASSESSMENT FEE-BLDG. (\$/SF)	0.24		
AFFECT ON EXISTING BUILDINGS			
GROSS RENTAL INCOME (\$/SQ. FT.)	16.80	3797942	3797942
TOTAL OPERATING EXPENSES (\$/SQ. FT.)	5.04	1139383	1139383
ASSESSMENT FEE-PROPERTY			54258
NET OPERATING INCOME		2658560	2604303
PROJECT VALUE		27984839	27413720
PROJECT VALUE REDUCTION			571119
% VALUE REDUCTION DUE TO ASSESSMENT FEE	2.0%		
RECOVERY OF ASSESSMENT			
OFFSETTING REVENUE INCREASE	2.0%		
MONTHS TO PRIOR CASH FLOW LEVEL	12.1		

TABLE 3

SCRTD PHASE II
 BENEFIT ASSESSMENT DISTRICT IMPACT VALUATION
 PROTOTYPICAL BUILDING
 OFFICE

	INPUT VALUE	CURRENT PRO FORMA	ADJUSTED PRO FORMA
LAND AREA (SQ. FT.)	51095		
GROSS BUILDING AREA (SQ. FT.)	80000		
NET RENTABLE AREA (SQ. FT.)	80000		
CAPITALIZATION RATE	9.5%		
INFLATION RATE	4.0%		
ASSESSMENT FEE-BLDG. (\$/SF)	0.24		
AFFECT ON EXISTING BUILDINGS			
GROSS RENTAL INCOME (\$/SQ. FT.)	15.60	1248000	1248000
TOTAL OPERATING EXPENSES (\$/SQ. FT.)	4.68	374400	374400
ASSESSMENT FEE-PROPERTY			19200
NET OPERATING INCOME		873600	854400
PROJECT VALUE		9195789	8993684
PROJECT VALUE REDUCTION			202105
% VALUE REDUCTION DUE TO ASSESSMENT FEE	2.2%		
RECOVERY OF ASSESSMENT			
OFFSETTING REVENUE INCREASE	2.2%		
MONTHS TO PRIOR CASH FLOW LEVEL	12.6		

TABLE 4

SCRTD PHASE II
 BENEFIT ASSESSMENT DISTRICT IMPACT VALUATION
 PROTOTYPICAL BUILDING
 OFFICE

	INPUT VALUE	CURRENT PRO FORMA	ADJUSTED PRO FORMA
LAND AREA (SQ. FT.)	30000		
GROSS BUILDING AREA (SQ. FT.)	35000		
NET RENTABLE AREA (SQ. FT.)	35000		
CAPITALIZATION RATE	9.5%		
INFLATION RATE	4.0%		
ASSESSMENT FEE-BLDG. (\$/SF)	0.24		
AFFECT ON EXISTING BUILDINGS			
GROSS RENTAL INCOME (\$/SQ. FT.)	16.80	588000	588000
TOTAL OPERATING EXPENSES (\$/SQ. FT.)	5.04	176400	176400
ASSESSMENT FEE-PROPERTY			8400
NET OPERATING INCOME		411600	403200
PROJECT VALUE		4332632	4244211
PROJECT VALUE REDUCTION			88421
% VALUE REDUCTION DUE TO ASSESSMENT FEE	2.0%		
RECOVERY OF ASSESSMENT			
OFFSETTING REVENUE INCREASE	2.0%		
MONTHS TO PRIOR CASH FLOW LEVEL	12.1		

TABLE 5

SCRTD PHASE II
 BENEFIT ASSESSMENT DISTRICT IMPACT VALUATION
 PROTOTYPICAL BUILDING
 OFFICE

	INPUT VALUE	CURRENT PRO FORMA	ADJUSTED PRO FORMA
LAND AREA (SQ. FT.)			
GROSS BUILDING AREA (SQ. FT.)	12600		
NET RENTABLE AREA (SQ. FT.)	12600		
CAPITALIZATION RATE	9.5%		
INFLATION RATE	4.0%		
ASSESSMENT FEE-BLDG. (\$/SF)	0.24		
AFFECT ON EXISTING BUILDINGS			
GROSS RENTAL INCOME (\$/SQ. FT.)	20.40	257040	257040
TOTAL OPERATING EXPENSES (\$/SQ. FT.)	6.12	77112	77112
ASSESSMENT FEE-PROPERTY			3024
NET OPERATING INCOME		179928	176904
PROJECT VALUE		1893979	1862147
PROJECT VALUE REDUCTION			31832
% VALUE REDUCTION DUE TO ASSESSMENT FEE	1.7%		
RECOVERY OF ASSESSMENT			
OFFSETTING REVENUE INCREASE	1.7%		
MONTHS TO PRIOR CASH FLOW LEVEL	11.0		

TABLE 6

SCRTD PHASE II
 BENEFIT ASSESSMENT DISTRICT IMPACT VALUATION
 PROTOTYPICAL BUILDING
 RETAIL/RESTAURANT

	INPUT VALUE	CURRENT PRO FORMA	ADJUSTED PRO FORMA
LAND AREA (SQ. FT.)	85380		
GROSS BUILDING AREA (SQ. FT.)	41626		
NET RENTABLE AREA (SQ. FT.)	41626		
CAPITALIZATION RATE	9.5%		
INFLATION RATE	4.0%		
ASSESSMENT FEE-BLDG. (\$/SF)	0.24		
AFFECT ON EXISTING BUILDINGS			
GROSS RENTAL INCOME (\$/SQ. FT.)	30.00	1248780	1248780
TOTAL OPERATING EXPENSES (\$/SQ. FT.)	0.00	0	0
ASSESSMENT FEE-PROPERTY			20491
NET OPERATING INCOME		1248780	1228289
PROJECT VALUE		13145053	12929356
PROJECT VALUE REDUCTION			215697
% VALUE REDUCTION DUE TO ASSESSMENT FEE	1.6%		
RECOVERY OF ASSESSMENT			
OFFSETTING REVENUE INCREASE	1.6%		
MONTHS TO PRIOR CASH FLOW LEVEL	10.9		

3.0 CONCLUSIONS

In general, only owners of property leased under terms of full gross contracts can be impacted by assessments. Owners of property leased under triple net or gross plus leases are not impacted because assessments are passed on directly to the tenants. Owners of property with full gross leases are impacted adversely if the assessment cannot be recovered by inflationary increases in the net portion of the lease rate within 18 months.

Table 1 has been prepared such that the breakeven annual net rental rate per square foot for each dollar of assessment is expressed in terms of an escalation rate, investment rate, and assessment stream. For a given assessment rate, the tabular value of Table 1 multiplied by the assessment rate yields the breakeven annual net rental rate. This threshold level may be compared against actual net rental rates of property to determine whether the property is impacted adversely. If the actual net rental rate is greater than the breakeven rental rate, the property is not impacted adversely. If the actual net rental rate is less than the breakeven rental rate, the property is impacted adversely because inflationary increases will be insufficient to recover the assessment within 18 months.

The breakeven annual percentage increase in the rental rate is the escalation rate. A procedure is presented to calculate the required annual percentage increase in the rental rate for a given assessment rate. If the required percentage increase is less than the escalation rate, there is no adverse impact. If the required percentage increase is greater than the escalation rate, there is an adverse impact.