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## Memorandum

**TO:** Michael Christensen, Superintendent of Schools **DATE:** August 2013  
**CC:** Joe Sorrera, Assistant Superintendent, Business Services  
**FROM:** Allan D. Kotin  
**RE:** **TERMS OF THE GROUND LEASE OF PERALTA SITE- RENT REVENUE ANALYSIS**

At District direction, Allan D. Kotin & Associates has provided support to District staff in the negotiation of the pending Ground Lease and Option Agreement and as such, we are intimately familiar with the financial terms of the deal. Regarding the assumptions used to compile the charts below, we believe they represent reasonable assumptions based on the terms of the Ground Lease with respect to rental income based on the assumed unit counts.

Reproduced below are the rent revenue projections by ADK&A for the years 1-6:

	Units Constructed		
		340 Units	200 Units
Activities	Lease Year	Total Rent	Total Rent
First Year	1	\$250,000	\$152,000
Construction	2	\$500,000	\$290,000
Partial Stabilization	3	\$500,000	\$290,000
Stabilized Year 1	4	\$900,000	\$600,000
	5	\$1,331,000	\$854,000
	6	\$1,344,000	\$861,000

As can be seen, the District will receive \$4.575 million in years 2-6 for an average annual payment of \$915,000 if there are 340 units. Even with only 200 units, the District will receive \$2.895 million or about \$579,000 per year. Note that the numbers for years 2-4 are fixed numbers stated in Section 4.1 of the lease. Years 5 and on are based on the Lessee's pro forma plus one year of 3% rent increase. The lease explicitly calls out rents of between \$600,000 and \$900,000 **PLUS** 5% of gross income.

The projections of rent for years 7-99 are too long to reproduce in full, but the following table summarizes the results through year 21 and then every twenty years with a 99-year total.



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**Projections by ADK&A over the full 99 years:**

**Units Constructed    340    200**

	Lease Year	Total Rent	Total Rent
First Year	1	\$ 250	\$152
Construction	2	500	290
Partial Stabilization	3	500	290
Stabilized Year 1	4	900	600
	5	1,331	854
	6	1,344	861
	7	1,357	869
	8	1,371	877
	9	1,385	885
	10	1,400	894
	11	1,415	903
	12	1,430	912
	13	1,446	921
	14	1,463	931
	15	1,479	941
	16	1,497	951
	17	1,515	962
	18	1,533	972
	19	1,552	984
	20	1,572	995
	21	1,592	1,007
	22	1,613	1,019
	23	1,634	1,032
Rent Reset Stabilized +20	24	1,656	1,045
Rent Reset Stabilized +40	44	2,266	1,403
Rent Reset Stabilized +60	64	3,366	2,051
Rent Reset Stabilized +80	84	5,355	3,220
	99	7,840	4,682
<b>TOTAL</b>		<b>\$ 311,552</b>	<b>\$190,039</b>

Over the full 99 years, the projected average rent will be \$3.1 million per year with 340 units and \$1.9 million per year with 200 units. This is composed of \$600,000 to \$900,000 per year in minimum rent before resets with the balance in percentage rent.

### GENERAL COMMENTS

Allan Kotin has been engaged in the negotiation of long term ground leases on behalf of both public agencies and private parties for over thirty years. During that period he has been involved with perhaps thirty ground leases by public agencies for apartment developments. The majority of those leases specify that the lessee pay the greater of a stated minimum rent or a percentage of gross income. The range of gross income percentages he has encountered is between 5% at the low end to 10-11% at the high end. The proposed Fairfield lease pays a very high minimum (\$600,000-



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\$900,000) PLUS 5% of gross income. The effect is that the District receives more than 13% of the total gross income of the developer. This is an unusually beneficial deal for the District and actually better in the key regard than any lease Mr. Kotin has ever negotiated.

### KOTIN CREDENTIALS

Allan Kotin has almost fifty years of experience in real estate economics with an emphasis on financial planning and redevelopment. He has extensive experience in financial analysis, financial structuring, transaction negotiation, and market research for public agencies, developers, investors, and lenders.

Mr. Kotin held key positions with several major real estate consulting and strategic planning firms before founding Kotin, Regan & Mouchly, Inc. in 1980. Allan D. Kotin & Associates is a successor firm. Intervening firm names were Sedway, Kotin, & Mouchly Group; KMG Consulting; and PCR Kotin. His management responsibilities have included developer selection, negotiation support, feasibility analysis, development monitoring, and strategic planning.

Since 1980, Mr. Kotin has been actively involved in public/private joint ventures, often acting as a key strategist and active negotiator for public agencies and private developers in major transactions. Within this area, Mr. Kotin has developed particular expertise in participatory ground leasing, a topic on which he has lectured before several national associations of government officials.

### Teaching Activities

- Adjunct Professor, University of Southern California, Price School of Policy (1986-Present)
- Guest lecturer, Harvard University, Graduate School of Design, Advanced Management Development Program (2001 – 2011)

### Education

- Master of Arts in Economics (regional economics), University of California at Los Angeles, 1964
- Graduate Studies in Economics, Harvard University, 1960-1961
- Bachelor of Arts in Economics, highest honors, Phi Beta Kappa, UCLA, 1959
- Attended Harvard University, 1953-1956