

XYZ:
A PONCEY-HIGHLANDS AND OLD FOURTH WARD CONDO
DEVELOPMENT PROJECT

By
XYZ, LLC

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EXECUTIVE SUMMARY

XYZ, LLC is a special-purpose entity formed specifically to purchase land and build a condominium/mixed-use project. The proposed project will be located at A. Avenue and will capitalize on the redevelopment fever sweeping through Atlanta's near-downtown areas. This revitalization fervor began with the rebuilding of downtown Atlanta as part of preparations for the 1996 Olympics. Midtown Atlanta has seen a significant amount of improvements in the last several years with the creation of more than one million square feet of office space, the development of hundreds of condo units and apartment units, and the addition of restaurants and other small businesses that serve the new residents. Similar growth is now radiating out to form a continuous line of development from already-developed areas such as Midtown, Little Five Points, and Virginia Highlands to include the still-transitioning areas such as Poncey-Highlands and the Old Fourth Ward.

A major factor in electing to form XYZ was the decision to redevelop City Hall East, a 1.2 million-square-foot building that formerly served as the headquarters for Sears and currently houses major components of Atlanta's city government and a large police precinct. This development is located only x miles away from the XYZ project site. An announcement was made during August 2004 that nearly \$400 million will be spent to redevelop the facility into a large condo, apartment, and commercial mixed-use property and an 8-acre park. The City Hall East conversion is expected to add 1,300 homes, 250,000 square feet of retail space, and 100,000 square feet of offices to the neighborhood. This conversion is slated for completion in the next five to seven years.

Project Description

XYZ will be a 66-unit, seven-story project developed and constructed in the Midtown Atlanta area. The project will be located on A. Avenue, between B and D streets. The location is x blocks south of N, which is the location of City Hall East, formerly known as the Sears building. The project will include the following:

- Eight 1-bedroom units ranging from 900 to 1,000 square feet
- Forty-eight 2-bedroom units at 1,200 square feet
- Six 3-bedroom at 1,700 square feet
- Four 2-bedroom/study units at 1,800 square feet
- Four retail commercial units at 1,250 square feet.

Project Goal / Mission

XYZ will provide an aesthetically pleasing structure that complies with the surrounding neighborhood associations' desire to improve the neighborhood so it resembles Virginia Highlands and Midtown without creating traffic problems. XYZ will help its neighborhood change to a walking community on par with nearby areas. XYZ, LLC's sole purpose is to redevelop the property into a live/work condominium complex.

Financial Summary

Seven individual investors and one company currently comprise XYZ, LLC. These seven investors have contributed cash in the amount of \$410,000. The company, which serves as the managing member of the LLC, contributed its option on the property, \$10,000 in collateral, and start-up costs. Start-up costs include the following: \$18,000 in development consulting fees and \$16,000 in legal fees, site plan appraisal fees, architectural services, maintenance, printing, and miscellaneous expenses.

XYZ currently owns and operates the target property, renting it out as an ABC to a management firm. Thus, the ongoing expenses for mortgage payments, utilities, and maintenance are covered by the rent generated. The property was appraised in July at \$1.45 million, prior to the decision to redevelop City Hall East. With that decision and the associated impending growth in the immediate area, the land value has increased to an estimated \$1.7 million.

XYZ, LLC seeks an experienced developer partner who will provide additional equity up to \$1 million, development experience, a strong financial balance sheet and credit standing, and strong banking relationships. In exchange, this partner will receive an ownership interest in the LLC or project and the associated participation in the proceeds of the project. The terms and conditions of the equity infusion and project support will be negotiated and determined by the parties involved.

The total project cost is estimated to be \$18.5 million plus the value of the land, thus making the total development cost \$19.9 million. These estimates are a little high to err on the conservative side. XYZ, LLC and its partner will secure the \$18.5 million in bank financing required to complete the project.

Management

The managing member is ABC of Atlanta, Inc. XYZ is the president. In this capacity, Mr. XYZ seeks business opportunities, investors, and financing sources, and manages the day-to-day tasks associated with these activities. Mr. XYZ is also a vice president of the ABC Group, an ABC firm. Prior to that, in his twelve-year tenure with XYZ as assistant vice president and certified financial manager, Mr. XYZ managed over \$3 billion worldwide in fixed income assets.

Additional management is provided via contract with consultants and professional services firms. These include Troutman Sanders LLP and ABC for legal services and ABC for development services.

Consultants and Professional Services Firms

Troutman Sanders LLP, founded in 1897 and based in the Southeast, has grown to be a major national and international law firm. The Commercial Development and Real Estate Investments practice group represents domestic and international clients in a wide range of real estate transactions involving the acquisition, financing, development, construction, management, operation, and sale of commercial, industrial, and residential properties. Clients include developers, financial institutions, insurance companies, and domestic and international investors.

ABC represents Corporations and Financial Service institutions with a focus on Corporate Finance, including Public and Private Equity and Debt Transactions. ABC Esq. is a triple graduate of ABC College, ABC Law School and ABC Business School.

ABC is a development consultant specializing in real estate development, property, and business law. Mr. ABC's current task for XYZ includes contract negotiation, project planning and scheduling,

financial structuring, and coordination of site planning and design. Prior to joining XYZ, he was the development manager for ABC, Inc.

GENERAL MARKET OVERVIEW

Atlanta Economy

The Atlanta metropolitan area has increased in size by over one million people since 1990 and has four of the top ten fastest growing counties. Most of that growth has occurred in Atlanta's northern suburbs and exurban southern counties. However, Atlanta has recently experienced significant population growth for the first time in almost 50 years. Since 2000, Atlanta has added 16,000 new residents, and now has a population of 432,900. Residential construction is extremely strong, with 4,313 net residential building permits added in 2002 and 4,391 added in 2003 from January to September. This increase in the demand for housing in Atlanta is a result of an interest in urban living and reducing commuting travel times.

The influx of young, educated workers moving to Atlanta for job opportunities is responsible for much of Atlanta's prosperity and is vital to expanding the state's consumer market. Based on this population growth, the Atlanta metro area has enjoyed strong employment growth in recent years, and the unemployment rate has been consistently lower than the national average.

Location Overview

The Midtown area offers an ideal mix of commercial, office, and residential development. It is served by well-established public infrastructure, including transportation and utility installations, hotels and institutions, parks, and recreation facilities. Approximately 138,000 people live in the three-mile radius from 10th Street and Peachtree Street, and the daytime employee population grows to more than 288,000. In the past five years, Midtown has experienced phenomenal growth of 250 percent in the number of residential units developed and 60 percent in commercial office space developed.

With its concentration of arts and cultural venues, coupled with more than 3,400 hotel rooms, Midtown hosts more than 5.6 million visitors annually. It has a proven ability to attract young professionals and others who want to live in a highly energized and sophisticated urban area. Almost 72 percent of people living in Midtown are between the ages of 18 and 39. Close to 50 percent have undergraduate degrees and 18 percent have graduate degrees. According to census 2000, the median housing price is nearly \$164,000.

The addition of retail space in Midtown has made it a more attractive place to work and live. Prior to 1997, there were approximately 187,000 square feet of retail space in Midtown. That number has tripled to date, with even more planned or under construction. The retail services are credited as a primary reason for the current 96 percent occupancy rate of the Midtown condo complex, Metropolis.

Market Information

According to demographic trends, metro Atlanta residents, frustrated with long commutes and Atlanta traffic, have begun seeking residences closer to their workplaces. In the downtown/Midtown area, the workforce population is more than twice that of the residential population. Furthermore, the largest percentage of the area's population is in the 18-to-39 age bracket, which contains many single-family households without children and is a prime market for both apartments and condominiums.

Including retail condominiums increases a building's attractiveness, given the additional consumer base created by the residential condominiums. In addition, the retail components have proven a key differentiator in other successful residential offerings in the Midtown area. The Highlands on Ponce apartment complex includes 9,000 square feet of retail to serve approximately 300 units. Finally, favorable interest rates have made properties that were once out of reach affordable for prospective residents. Although interest rates are rising, they are rising slowly and are expected to remain near historic lows for the next two to three years.

XYZ CONDOMINIUM COMPLEX

Community Amenities

XYZ is designed to be a total "in-town" living environment. The community contains a mixture of homes and social outlets planned to cater to residents' convenience. These amenities are available to all residents of XYZ and their guests. The list of amenities is being developed as the design of the project continues, but it will have the following items:

- A fitness center
- Roof-top amenities that will include tennis courts, golf putting greens and a driving range, a jacuzzi, gazebos, and gardens.

The project has two levels of structured parking under the building. The secured structure will have 104 vehicle spaces. The entrance to the lower level of parking will be from B and D streets. The entrance to the upper level of parking will be through the building on the A. Avenue side. For the residents' convenience, an elevator will go from the parking garage up to all the floors. Therefore, residents will not have to enter the lobby area to get an elevator to go to their units.

Unit Amenities

Each unit home will have both a panoramic view of the Atlanta cityscape and a view of the proposed park. These views are enhanced by the openness of each unit's window span. The large windows will provide for maximum northern exposure of sunlight, twilight, and moonlight - a heightened visual experience. The condominium units also contain home-like state-of-the-art conveniences that add to the in-town living mystique. Each unit will have the following items as standard:

- Washer/dryers
- A garden tub, separate shower stalls
- Gas fireplaces
- State-of-the-art appliances including dishwasher, microwave, trash compactor, garbage disposal
- Security system
- Ceiling fans
- Internet wiring
- Crown and chair rail molding.

Unit Pricing

The price of the units is as follows:

Bedrooms	Square Footage	Price
1-Bedroom	900 square feet	\$237,600
1-Bedroom	1,000 square feet	\$264,000
	Sales price of \$264.00 per square foot.	Average sales price: \$254,800
2-Bedroom	1,200 square feet	\$332,400
	Sales price of \$277.00 per square foot.	
3-Bedroom	1,700 square feet	\$408,000
2-Bedroom with Study	1,800 square feet	\$432,000
	Sales price of \$289.00 per square foot.	Weighted average sales price is \$501,120.
Commercial condo	1,250 square feet	\$450,000
	Sales price of \$360.00 per square foot.	

COMPETITION

Several new residential projects are currently being sold in the area. These include the Glen Iris Lofts, the Central Park Lofts, and the Carlton. Their locations are identified on a map included in the competition section. Phase II of the Glen Iris Lofts is under construction and being pre-sold. This project is located on the corner of North Avenue and Glen Iris Avenue. Also, the Sager Lofts, a new loft project on a site southwest of the property on Glen Iris Avenue is under construction. A little further away on Ralph McGill Boulevard are the Block Lofts, a large condo and apartment complex.

Of these projects, the Carlton would be most similar in design and character to XYZ. The Carlton is a 69-unit project located on Ponce de Leon Avenue at the juncture with Freedom Parkway. The unit sizes in this project range from 1,086 to 1,760 square feet. The original selling prices were from \$196,000 to \$399,000; they are presently starting at \$220,000. The list of features and amenities is included in the competition section. The Carlton has sold 53 units at an average price of \$278,848.

The Glen Iris Lofts is a 110-unit project, with units from 686 square feet to 2,200 square feet. The original selling prices were from \$139,900 to \$500,000. The starting prices in Phase II began at \$170,000 and go up to the low \$500,000 range.

The Central Park Lofts is a 35-unit project and has units from 1,285 square feet to 1,647 square feet. The starting prices ran from \$246,000 to \$360,000.

The Sager Lofts, currently under construction, will be a 24-unit live/work project. It will have units from 1,200 square feet to 2,800 square feet. The 1,200-square-foot units will start at \$229,000 and the 2,800-square-foot units will start at \$399,000.

The Block Lofts, in the final phase of construction, is a 313-unit project with 69 units for sale ranging in size from 1,200 to 1,800 square feet. Prices range from \$150,000 to \$285,000. The Block Lofts are 70 percent sold as of October-end 2004.

Based upon market information, the units in these projects are selling, and it is projected that this Midtown area can handle the construction of additional units of the character, design, and price proposed for XYZ.

LOCATION AMENITIES / CONDITIONS

Transportation / Retail Access

Ponce de Leon Avenue between Peachtree Street and Moreland Avenue is a commercial spine that links Midtown with the Poncey-Highland, Virginia Highland, and the Druid Hills neighborhoods. This corridor is a focal point for major redevelopment activity.

The neighborhood offers an ideal mix of commercial, industrial, and residential development. It is served by well-established public infrastructure, including transportation and utility installations, government centers, public schools, and parks. The location has excellent accessibility to all major transportation arteries in the area and to metropolitan Atlanta. The property is also well-located in terms of employment, shopping and recreational facilities. In general, the area is in a period of growth and revitalization. Little vacant land remains available for additional development. Land values have shown strong growth in recent years and many older properties are being demolished or redeveloped to accommodate more intensive land uses.

The XYZ area is served by public transportation. The MARTA rail station is about 1.3 miles from the property. There is also bus service that runs along P Avenue, M Road, and N Avenue.

As the major commercial corridor, Ponce De Leon Avenue hosts a variety of retail and commercial establishments. The major activity node is Midtown Place. Located directly across from City Hall East, Midtown Place houses several major retailers including The Home Depot, Staples, Borders Books, PetSmart, and a Whole Foods Market. In addition to Midtown Place, dozens of retail, entertainment and service businesses line Ponce De Leon Avenue. Directly east of City Hall East are a mixture of restaurants and other retail establishments including a Kroger grocery store. City Hall East also serves as a community center and provides meeting rooms and halls for various community events.

North Avenue is primarily a commercial and residential corridor, which includes the Southern Dairies Office Complex located at the intersection with Glen Iris Avenue. The surrounding area contains several major employers including Georgia Power Company, National Linen Services, Aramark Services, and the U.S. Postal Service.

Several parks are nearby. The northern end of Freedom Park abuts North and Ponce De Leon Avenues. Central Park and several pocket parks are in close proximity to the area. Piedmont Park is a X-minute walk away.

Zoning

The current land use plan has been amended from an "Industrial" designation to a "Mixed Use" designation. The property was rezoned from "Industrial" to a "Live/Work" zoning designation effective April 28, 2004.

A special exception to increase the height of the building from 52 feet to 76 feet and a variance to reduce the loading zone requirements from three to one was obtained for the project, thus allowing the construction of the seven-story building.

Easements / Utilities / Flood Plain Area / Soil Condition

Electric, water, sewer, gas, and telephone service is available on this site. Telephone service is provided by BellSouth and electricity is provided by Georgia Power. The utilities available to the site are believed to be of sufficient capacity to accommodate development.

No portion of the subject site is located within a designated flood plain area, according to the Federal Emergency Management Administration (FEMA) Flood Insurance Rate Map. A visual inspection of the site showed no noticeable soil movement. It is assumed that soil conditions are adequate to support any proposed development.

Proposed Park

The first of the neighborhood parks would encompass a swath of land running southeast from N Avenue adjacent to the Beltline, a proposed 22-mile transit line built along unused railroad tracks around Atlanta. Officials with the Atlanta Development Authority, Park Pride and the Trust for Public Land confirmed that the park's creation was under review. Depending on how much land planners can acquire, the park could spread all the way to Freedom Parkway to Ralph McGill Boulevard. It could be as small as 12 acres or as large as 40 acres and would sit in the middle of the one of the hottest loft and condo areas in the city¹.

None of the land for the park has been acquired yet. According to the state director of the Trust for Public Land, it is still too early in the process to declare the park -- or the adjacent Beltline -- "a done deal".² The Atlanta Development Authority has commissioned a \$300,000 study to find the best way to finance the project, including the ring of parks.³ The Poncey-Highland/Old Fourth Ward proposal is among the most promising of the ring of parks primarily because much of the land is attainable. There are few residences there, and most of the land is open fields and Georgia Power property.⁴

PROJECT RISKS

Risks

1. The proposed 15-acre park will shrink back to the original eight-acre size and may therefore not extend up to or past the subject property. This would decrease the appeal of the condos and necessitate a lower asking price. In addition, the original design of the complex has been significantly modified to incorporate the park. The resulting modifications add approximately \$4 million to the overall project cost. If the park does not extend, these additional costs will be sunk with no ability to recoup upon the sale due to the lower sales prices of the units.

¹ From "A new Intown Park", Creative Loafing, Michael Wall

² Ibid

³ Ibid

⁴ Ibid

2. The park will be at least 15 acres and homeowners within the nearby community may lobby against the project and get the city to expropriate or condemn the subject property's land in order to incorporate it into the park.
3. Businesses that would have their views of the park blocked may campaign to have the city expropriate or condemn the subject property's land in order to incorporate it into the park *or* to reverse the variance allotted to keep the height at two to three stories or less.
4. Across A Avenue is a nightclub that has an outdoor concert area. Outdoor concerts would be a nuisance to dwelling units planned for the subject site.
5. In early 2000, Buckhead experienced saturation in the condo market in the midst of a city-wide condo building spree with at least one well-known developer suffering foreclosure due to slow turnover of the units. That risk exists here. Midtown has a large number of condo units and the number of condos in a one-mile radius of the project is nearing 1,000. If the units do not sell quickly, the returns on the project would drop precipitously. According to loft developer Jerry Miller, co-owner of Atlanta-based Miller-Gallman Developers, "Because velocity is so important in condominium development, investment returns will be hurt as absorption for individual projects declines."⁵
6. Currently, the only individual with commercial real estate development experience is not directly affiliated with the project in that he is not an investor. ABC, who has significant development experience, has a contract with XYZ to handle development-associated experiences. Should Mr. ABC sever or cancel his contact, no one associated with the project would be able to step into his place.

Mitigating Factors

1. ABC has depended on a nighttime lease of City Hall East's parking lot, but that lot will become a park. Consequently, parking for ABC would be drastically cut, reducing the clientele and likely leading the managers/owners to change the business focus. In addition, ABC will likely eventually be sold and re-developed to capitalize on the rising property values.
2. Zoning approval and building plan approval were recently granted for up to seven stories. It would be difficult for the city to obtain a reversal of what it has already approved.
3. Construction will not commence until the planned development of the park has been tentatively approved and the primary funding source identified. Tentative approval is estimated by March 31, 2005. Even if the park only encompasses what is currently overflow parking for City Hall East, the project will benefit.
4. A member of the XYZ, LLC management team will attend community and neighborhood meetings related to area development. This will help build goodwill and circumvent any emerging movements to include the project's site in the park expansion.
5. The condo complex will have retail businesses located onsite. Grocery stores, small restaurants, and Home Depot are located within easy walking distance. This level of convenience adds to the project's appeal to prospective residents.
6. Mr. ABC's contract with XYZ has performance parameters and significant penalties for breach of contract. In addition, an experienced partner is sought to address exactly this issue.

FINANCING / PARTNER

⁵ Real Estate Journal, "Atlanta Condo Market Is Showing Weakness", October 2000

A partner is sought to provide the following benefits:

1. **Equity capital infusion** of \$2 million depending on equity stake sought. This additional equity infusion will also provide the debt/equity ratio coverage typically demanded by lending institutions for construction loans on development projects such as this.
2. **Strong relationships with banks** and other lending institutions. With a strong relationship, there will be minimal need to shop the project around. This will reduce the length of time required to arrange and finalize financing.
 1. **Strong credit standing and financial wherewithal.** A strong credit standing will reduce the amount of paperwork required to obtain the loan and increase the number of lending institutions from which to obtain loans, thus decreasing the cost of financing.
3. **Significant development experience.** This is the first time the current members of the XYZ, LLC have developed a project of this size and scope. Therefore, the project would benefit from the greater experience of a partner who has previously developed condos, lofts, or multi-unit family housing. The project would benefit from additional review and oversight, increasing the probability that the project would come in on time and at budget. Furthermore, the added experience would further encourage prospective lenders to provide the requisite financing.