



Seaport San Diego Proposal Final Economic Analysis Summary

September 19, 2016

Seaport San Diego Proposal



Overview

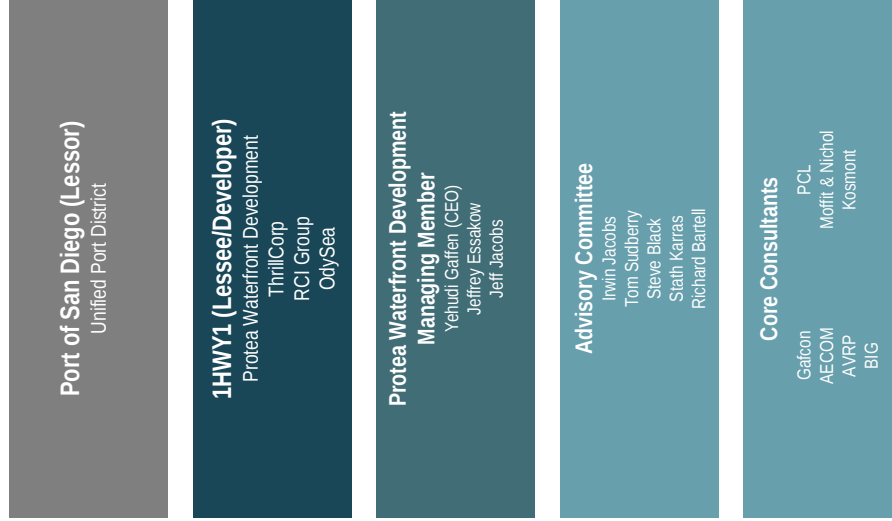
- A multiple use redevelopment that includes:
 - 3 hotel concepts with over 1,000 rooms
 - 19K SF office
 - 390K SF retail
 - 65K SF educational space
 - 150k SF aquarium
 - 167 slip marina
 - 480' tall observation tower
- Total development cost
 - ~\$1.1bn (without public improvements)
- Project Net Operating Income⁽¹⁾:
 - ~\$123mm (year 10)
- Proposed ground rent⁽¹⁾:
 - ~\$22mm (year 10); based on 1HWY1 proposed percentage rents



(1) Stabilization for different components of the Seaport project occurs between year 7 and year 10; year 10 represents the first full year of stabilized operations for all project components

Seaport San Diego Proposal

Development Entity & Team



- 1HWY1, a to-be formed and capitalized partnership of multiple business entities, is proposed as the Ground Lessee and developer for Seaport San Diego (“Seaport”)
- Protea Waterfront Development (“PWD”), a to-be formed special purpose entity, is proposed as the managing member of 1HWY1
 - PWD proposes to own 65% of the interests in 1HWY1⁽¹⁾
- A team of consultants and advisors has been assembled to provide advisory and professional services to 1HWY1

Seaport Development Program Overview



Hotel	Three hotel concepts: Full-service (Virgin) ⁽¹⁾ , Micro hotel (Yotel), Hostel (Freehand). Over 1,000 rooms centrally located on the project site ⁽²⁾ .
Office	19,000 SF third-floor office space located above retail ⁽²⁾ . Space planned for blue-tech companies.
Retail	Nearly 390,000 SF of retail space distributed throughout the project site at street- and second-floor levels. Includes 165,000 SF shopping, 141,000 SF restaurant, 69,000 SF entertainment, cinema and meeting spaces ⁽²⁾ .
Parking	A two-level subterranean parking garage located directly below project site with additional surface parking. Approximately 2,500 spaces will be subterranean with nearly 300 spaces of existing and at ground level ⁽²⁾ .
Aquarium	151,000 SF aquarium (OdySea) with exhibit space below grade. Additional spaces include a 16,000 SF butterfly exhibit and 12,000 SF of retail space ⁽²⁾ .
Marina	10,670 linear feet of marina dockage in the Tuna Harbor area ⁽²⁾ . 24 mega yacht slips, 61 commercial fishing slips and 82 recreational slips.
Spire	480' tall observation tower (ThrillCorp) located in the Ruocco Park area of the site. Includes a 10,000 SF dining area, 10,000 SF observation deck, <2,000 SF retail and 20,000 SF event space ⁽³⁾ .
School	65,000 SF education facility adjacent to the hotels and aquarium sites. Includes a marine-focused, 600 student charter high school ⁽³⁾ .
Public Improvements & Open Space	Over 30 acres of public use and infrastructure space is proposed and includes nearly 21 acres of parks, open spaces and plazas, and piers, walkways, shared streets and publically-accessible rooftops ⁽³⁾ .



- (1) Parentheses indicate proposed operators throughout this page
- (2) Based on JHWY1 proforma
- (3) Based on supplemental information provided by JHWY1

Seaport Financial Overview

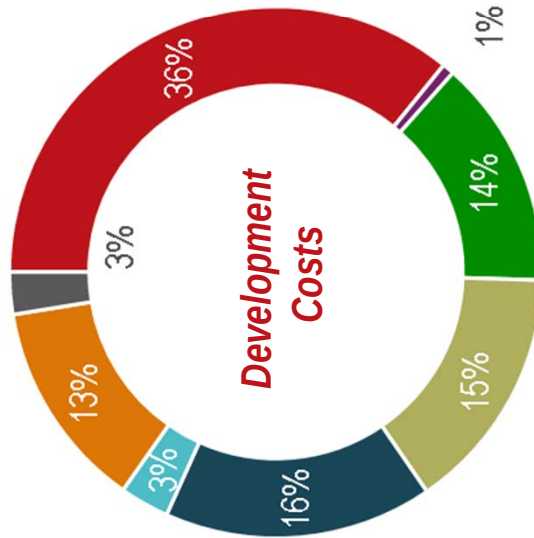


1HWY1 Projected Costs, Revenues and Lease Payments

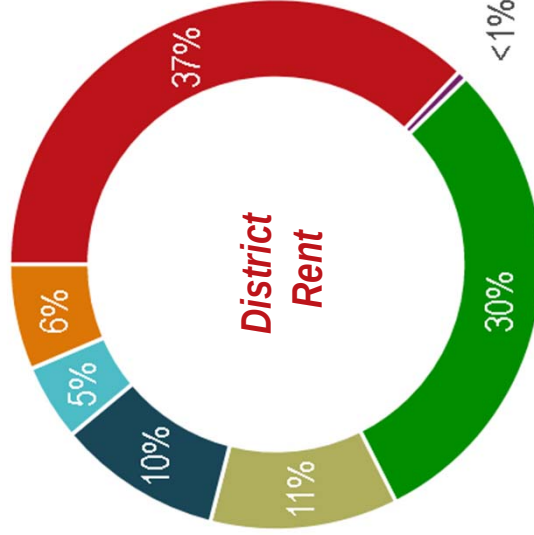
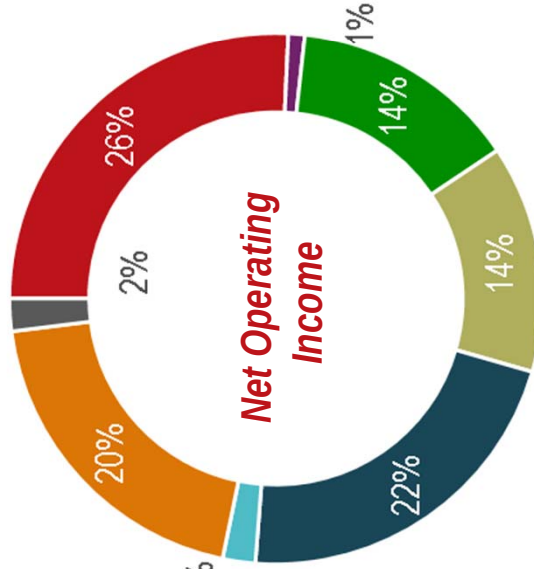
Total Development Costs:
\$1.1 billion⁽¹⁾⁽³⁾

Total Year 10⁽²⁾ Project NOI:
\$122.8 million⁽³⁾

Total Year 10⁽²⁾ District Rent Payment:
\$22.2 million⁽³⁾



Public Improvements: \$146mm (inflated)



(1) Public improvement costs (\$146mm, with inflation) not included in total development costs or percentages shown

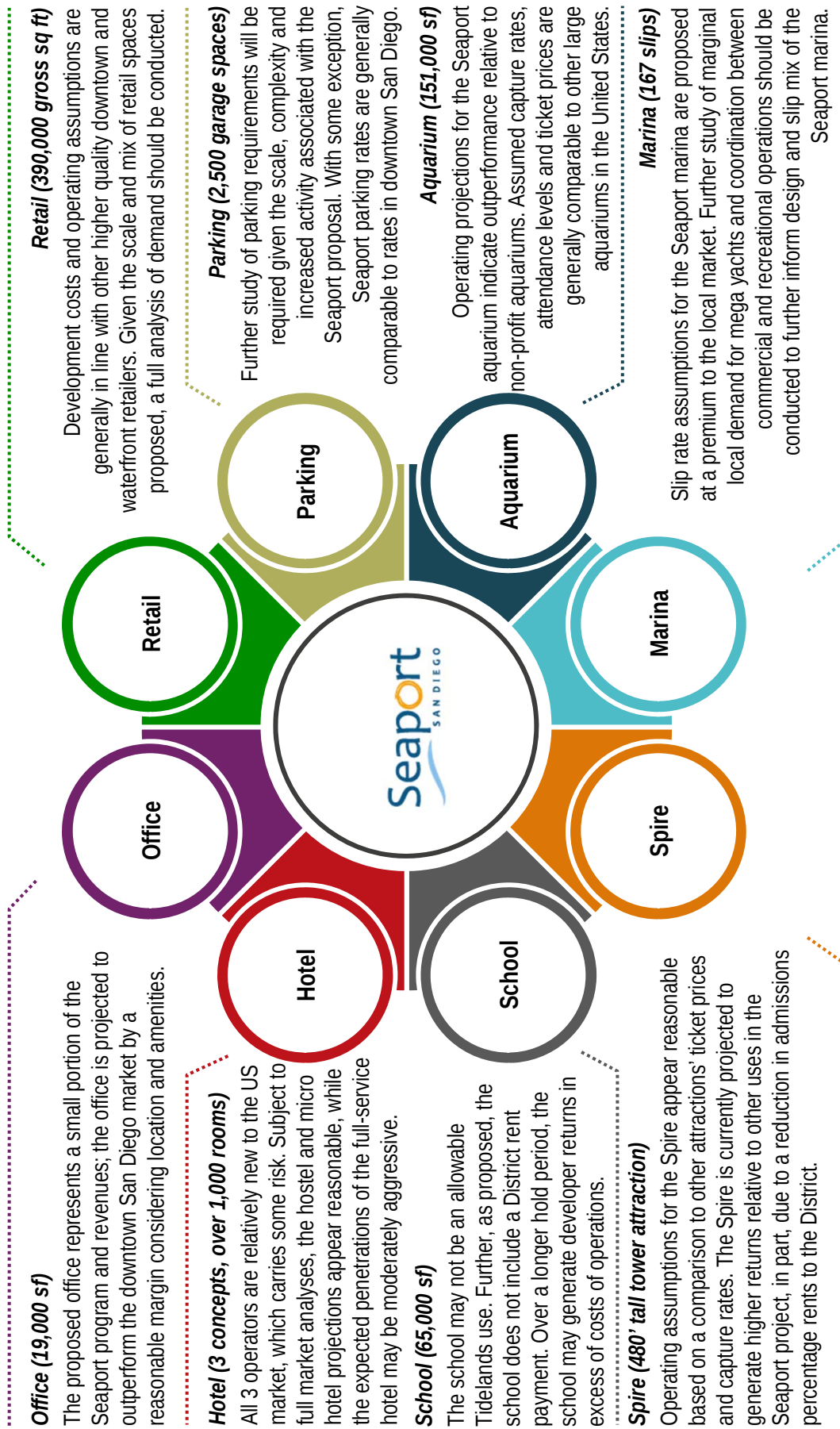
(2) Year 10 of the project represents the first full year of stabilized operations for all project components

(3) Based on 1HWY1's proforma, which uses an estimate of \$5mm for predevelopment costs (\$15mm estimated in 1HWY1 supplemental information)

(4) District ground rent for the retail component of the project is calculated based on sales per square foot and not as a percentage of project revenue for leasing retail spaces; as such a variance exists between retail NOI and retail District rent percentages

(5) 1HWY1 proposes no District rent payment associated with operations of the school

Seaport Project Analysis Highlights





Summary of Analysis

Financial Overview and Ground Rent

Project Financial Comparison			
Scenario	Development Costs	Year 10 NOI	Year 10 District Rent ⁽³⁾
1HWY1 ⁽¹⁾	\$1,253,723,401	\$122,824,489	\$22,195,584
JLL ⁽²⁾	\$1,282,704,479	\$116,377,630	\$22,790,123
Variance (\$)	(\$28,981,079)	\$6,446,860	(\$594,539)
Variance (%)	-2.3%	5.2%	-2.7%

Overall, although variances exist in the projections of revenues, expenses and development costs, at this early stage of the Seaport project and based on currently available information, these variances are within a reasonable range.

Notwithstanding the above, given the scale and diverse scope of the Seaport project, further market analysis and refinement of the development program will be necessary to fully evaluate project feasibility.

(1) Based on 1HWY1's proforma, which uses an estimate of \$5mm for predevelopment costs (\$15mm estimated in 1HWY1 supplemental information)
(2) JLL's projections rely on certain information provided by 1HWY1, and are based on currently available market information. JLL's projections are not the result of a full market study, do not consider current or future projections of demand, and are provided for illustrative purposes only
(3) JLL projections assume 1HWY's proposed percentage rents, which may not, in all cases, correspond to the District's standard rents

Summary of Analysis

Comparison of Ground Lease Percentage Rents



Percentage Rent Comparison				Comments
Component	1HWY1 Proposal ⁽¹⁾	District Policy		
Hotels				
Rooms	7%	7%		
Food & Beverage	4%	3% - 5%		Other lodging revenue components would need to be detailed for actual leasing purposes 1HWY1 proposal may be a blended rate for purposes of financial projections
Office	10%	10%		Equivalent rate
Retail				
Restaurant	3%	3% - 5%		3% would only include food sales; District standard for on-site beverages is 5%
Retail, Entertainment, Piers	2%	Varies		Additional information would be required for full comparison; 2% appears low relative to District retail rates
Parking	10%	10%		Equivalent rate
School	N/A	N/A		Not applicable
Aquarium				
Ticket Sales	3.25%	6%		6% based on tickets for excursions and sportfishing; District may need an updated benchmark
Food & Beverage	3%	3% - 5%		3% would only include food sales; District standard for on-site beverages is 5%
Retail	5%	Varies		Additional information would be required for full comparison
Marina				
Slip Revenue	22%	22%		Equivalent rate
Water Taxi	6%	6%		Equivalent rate
Spire				
Ticket Sales	3.25%	6%		6% based on tickets for excursions and sportfishing; District may need an updated benchmark
Food & Beverage	3%	3% - 5%		3% would only include food sales; District standard for on-site beverages is 5%
Retail	5%	Varies		Additional information would be required for full comparison

Summary of Analysis

Potential Project Returns



Financial Metrics			
Scenario	10 Year Unlevered IRR	Year 10 Return on Cost	10 Year Investment Multiple
1HWY1 ⁽¹⁾	10.44%	9.80%	1.52x
JLL ⁽²⁾	8.89%	9.07%	1.42x

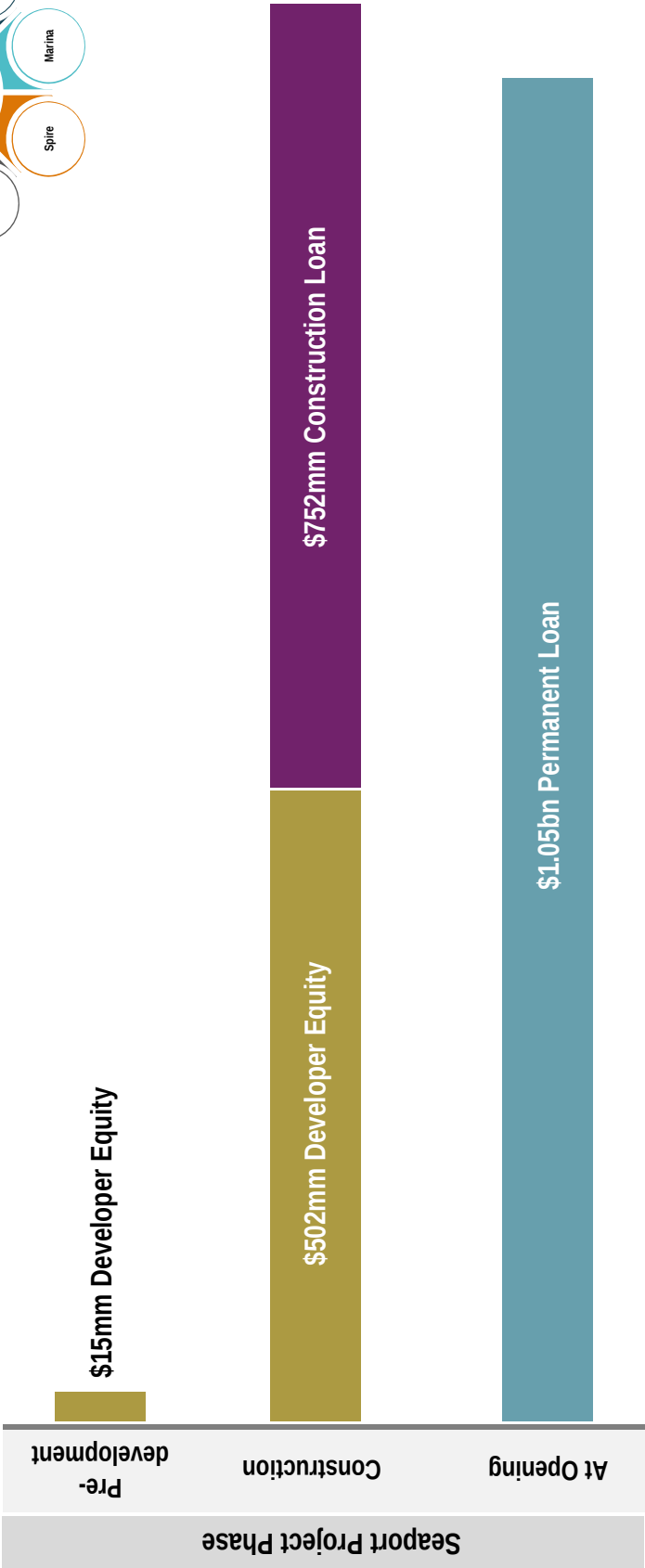
The comparison of financial metrics shown above is based on a 10-year projection of operations for the Seaport project. Both 1HWY1 and JLL projections make certain assumptions regarding asset values at the end of 10 years.

On a 66-year basis, 1HWY1 projects an unlevered internal rate of return of approximately 9%. Using debt to leverage the project, 1HWY1 expects to earn an equity return of 17% on a 10-year basis or 14% on a 66-year basis.

(1) Based on 1HWY1 proforma which uses an estimate of \$5mm for predevelopment costs (\$15mm estimated in 1HWY1 supplemental information)
 (2) JLL's projections rely on certain information provided by 1HWY1, and are based on currently available market information. JLL's projections are not the result of a full market study, do not consider current or future projections of demand, and are provided for illustrative purposes only.

Summary of Analysis

Proposed Capital Structure



1HWY1 intends to fund approximately \$15 million⁽¹⁾ of anticipated pre-development costs through equity. During the construction phase of the project, 1HWY1 expects to fund capital needs⁽²⁾ through an interest-only construction loan assumed at 65% of projected costs, with the balance funded by equity. At opening, 1HWY1 assumes construction financing will be converted to a permanent loan of \$1.05 billion (based on an 80% loan-to-cost ratio).



(1) Based on 1HWY1 supplemental information; 1HWY1 proforma currently includes an estimate of \$5mm for predevelopment costs
(2) Capital needs based on 1HWY1 10 year proforma; values are net of project net operating income from partial operations of Seaport





Conclusions

- Overall, although variances exist between JLL and 1HWY1 projections of revenues, expenses and development costs, at this early stage of the Seaport project and based on currently available information, these variances are within a reasonable range (subject to the concerns noted in this report)
- The hotel and retail developments represent a significant portion of Seaport revenues and ground rent, but pose some feasibility questions due to:
 - Size of the full-service hotel relative to expected market penetration
 - Limited number of operating properties in the U.S. for all three proposed hotel operators
 - Ability to support scale of the retail component given Tidelands retail use restrictions and overall market demand
- 1HWY1 has assumed cost responsibilities for approximately \$146mm (inflated) of public improvements in the project proforma without the use of direct public subsidy or financing, lowering projected project returns
 - Two pedestrian bridges and the Kettner Street Mole watercut were removed from the original public improvements scope as cost saving measures
 - Re-design of the parking structure also completed to improve efficiency and reduce per stall costs
- 1HWY1 return opportunities are derived from residual project cash flows and financial structuring, a 1.5% portfolio management fee during operations, a 3.0% developer fee and potential participation (if any) in a 3.0% construction management fee



Conclusions

- 1HWY1 has not fully identified investment partners or presented a complete financing plan to meet the significant capital requirements for Seaport
 - Amount of equity that will be provided by 1HWY1 members and outside sources for the Seaport development phase
 - 1HWY1 has received letters of interest from potential external debt and equity providers
 - The partners of 1HWY1's managing member, Protea Waterfront Development, currently have access to sufficient liquid assets, on a combined basis, to fund projected predevelopment costs of \$15mm. However, individually, the partners may not have sufficient liquid assets to fund the anticipated predevelopment costs
 - Project schedule and six year construction period will require nearly \$1.3bn in debt and equity to fund development
- There are certain assumptions, risks and unknowns associated with 1HWY1's ability to make ground lease payments to the District prior to construction of the Seaport project
- Parking requirements have not been fully studied; 1HWY1's preliminary estimate of parking needs will not be met by the current Seaport parking proposal
- The size, complexity and length of development period for Seaport create multiple challenges to accurately projecting project performance; therefore all projections should be further vetted with the benefit of full market studies and demand analyses



Conclusions

- Further analysis and refinement of the Seaport program will be required to determine applications of District standard rent percentages to each component of the project. 1HWY1 proposed percentage rents that may not conform to District standards in all cases, which should be a District requirement
 - Percentage rents for admissions revenues for the aquarium and Spire were lowered from 5.00% (original proposal) to 3.25% (current proposal)
- The development financial model does not currently include the following costs:
 - Costs associated with the relocation of existing Seaport Village retailers and associated temporary retail and parking facilities
 - Costs of equity financing
 - Costs associated with additional commercial fishing operations at Driscoll's Wharf (proposed future phase)
- The development financial model does not currently include the following additional potential revenue sources:
 - Retail lease percentage rents (between 1HWY1 and retailers)
 - Kiosk and signage rental
 - Smithsonian media augmented and virtual reality offerings

Recommendations



- Full market studies should be pursued, with an initial focus on the hotels, retail, aquarium and Spire project components
- Given the scale, cost and initial phasing of the proposed parking garage, a full study of parking requirements using the Tideland's guidelines should be completed
 - An analysis of shared parking opportunities should be considered as part of this study
- 1HWY1 should continue to develop its financing plan, including partnership terms, equity and debt partners
- Proposed project components that may not be allowable Tideland's uses (e.g. school, floating pool) should be evaluated and resolved
 - If the Seaport school remains a component of the development program, further evaluation of potential developer returns should be completed (the school does not include a District ground rent payment)
- Modeling of proposed economic impacts of the Seaport project should be refined and updated
- Meetings between the District, 1HWY1 and proposed operators should be considered as a means to address variances in market assumptions and in such cases where financial projection methodologies were not fully disclosed



Recommendations

- Ground lease percentages that do not meet the District's percentage rent policies should be addressed
 - The District should clarify whether proposed 1HWY1 percentage rents were estimated for purposes of its financial model and/or whether any request(s) will be made to pay rent(s) below the District's standards
 - The District should consider benchmarking admissions percentage rents for attractions comparable to the Spire and aquarium
- Further refinement of the development financial model should be pursued, including:
 - Allocation of public improvement costs at the project component level
 - A sources and uses projection at the project component level
 - Refinement of the development program and resolution of space allocation discrepancies
 - Inclusion of additional revenue sources matching the project program, including retail percentage rents, kiosk leasing, etc.
 - Inclusion of additional costs contemplated by the Seaport project, including Seaport Village temporary facilities, equity financing, etc.
- Further evaluation of project contingencies, including potential program alternatives (if certain uses are not permitted on Tidelands), and project phasing should be completed



Robert Hunt

Managing Director
Public Institutions
206-607-1754

Bob.Hunt@am.jll.com

Andrew Phillips

Vice President
Public Institutions
858-410-6390

Andy.Phillips@am.jll.com

Matthew Do

Senior Associate
Public Institutions
858-410-1219

Matt.Do@am.jll.com

Thank you