

EVALUATING PUBLIC SECTOR PARTICIPATION
IN A MIXED-USE DEVELOPMENT:
LYNN'S SOUTH HARBOR PROJECT

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Evaluating Public Sector Participation in a
Mixed-Use Development: Lynn's South Harbor Project

by

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ABSTRACT

This thesis evaluates the need for public sector participation in the development of South Harbor, a large, mixed-use project proposed for the city of Lynn, Massachusetts.

First, the need for active public sector involvement is established, by examining the site's many constraints to development. Second, the public sector's ability to assume this active role in the development process is evaluated by studying Lynn's involvement in another local, public-private development project, known as Seaport Landing. Third, the financial feasibility of the program proposed for the site is analyzed and it is determined that the public sector will have to provide the project with substantial financial assistance, if it is ever to be economically feasible. Finally, the authors identify those issues that the city of Lynn must resolve before South Harbor can be developed and recommend an order that the city should follow in attempting to resolve them.

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Introduction

In its heyday Lynn, Massachusetts was a bustling, thriving blue-collar community with many industrial employers. Between 1965 and 1978, however, one third of the city's industrial employers left Lynn, the unemployment rate climbed and the population decreased by over twenty percent, from 100,000 to 78,000. In 1981 a tragic fire burned part of the central business district to the ground. Allegations of corruption and mismanagement have been made often against city officials and the city has been the target of numerous media investigations which perpetuate the public's perception of Lynn as a worn, blighted and corrupt city.¹

Well aware of the city's image problems, Lynn officials, in the recent past, have sought to alter the public's perception of the city. The city has funded a public relations campaign that emphasizes Lynn's positive features: its 8.3 mile shoreline, its highly skilled labor force and its proximity to Boston. In addition, city officials have encouraged the development of high visibility projects downtown. Now, in their most ambitious effort to date, Lynn officials propose to engineer the development of a large, mixed-use project on 56 acres of waterfront property, known as South Harbor.

The purpose of this thesis is to analyze the feasibility of this proposed development and to recommend how any city

involvement with the project should be structured. In particular, this paper undertakes to answer four questions. First, what are the development risks associated with the site itself and what do these risks imply about the need for public sector involvement? Second, what are the strengths and weaknesses of the process by which development-related decisions get made in Lynn? Third, is the program that has been proposed for the site feasible, from both a market and financial perspective? Finally, what issues must the city resolve for South Harbor to become a reality and in what order should the city resolve them? The authors conclude from their research, that Lynn city officials possess the will and the expertise necessary to resolve the major land assembly issues, financial feasibility issues, and public-private partnership issues that must be resolved, if they hope to bring about the development of South Harbor.

It should be noted at the outset that this thesis does not attempt to perform a highest and best use analysis for the site nor does it attempt to perform a market analysis to confirm that a demand truly exists for the types and quantities of uses identified in studies commissioned by the city of Lynn. Instead, this paper takes the preliminary program as given and bases its financial feasibility analysis thereon. Through the study of the city's involvement in another mixed-use, waterfront project, through interviews with Lynn officials and through computer-

assisted financial analysis, this thesis identifies the problems that must be solved in order for South Harbor to be developed successfully and suggests approaches for solving them.

The South Harbor site itself is located at the southern entrance to the city at the foot of the General Edwards Bridge. As Map Exhibit 2 illustrates, the 56-acre site is bounded on the east by Lynn Harbor, on the south by the Saugus River, on the north by various industrial uses, and on the west by Route 1A, known locally as The Lynnway.

The American City Corporation, a consulting firm hired by the city to assess South Harbor's development potential, has recommended a preliminary program for the site which calls for the development of a high-density, large-scale, mixed-use project. The program includes a 350-room hotel, restaurants, 500,000 square feet of multi-tenant office space, 12,000 square feet of retail space, 350 to 600 residential condominiums and a marina.² Specific details of this program will be discussed in the financial feasibility section of the third chapter.

In the first chapter, the history of the site will be described in detail and the major constraints to its development will be evaluated in terms of what they imply about the need for the public sector to take an active role in the development process.

Chapter two will evaluate the city of Lynn as a player

in the development of South Harbor. This evaluation will be undertaken in three steps. First, Lynn's role as regulator of the development process is explored by examining the city's formal political structure. Next, Lynn's ability to step beyond its regulatory role and to take an active, entrepreneurial position in the development process is examined by looking at the city's informal decision-making network. Finally, conclusions are drawn about the strengths and weaknesses of the city's methods for making development-related decisions, and about what these strengths and weaknesses imply about the city's ability to control the South Harbor development process.

Chapter three is divided into two sections and addresses project feasibility. The first section presents a comprehensive financial feasibility analysis of the preliminary program, recommended for the site by the American City Corporation. A computer model was constructed to test the economic viability of this program through pro forma analysis. This model evaluates the impact on project feasibility of changes in critical parameters such as public or private debt and equity financing, project phasing and operating revenues. The project is shown to be infeasible unless operating revenues can be increased substantially and unless private and public sector financial support can be obtained. The second section evaluates the American City Corporation's market study and the preliminary program that

this study has recommended for the site.

The final chapter draws on those which precede it to identify the issues that the city must resolve if the South Harbor project is to become a reality. Recommendations are made for how the city should proceed with plans to develop the site.

Chapter One: The Need for Active
Public Sector Involvement

The public sector is a potential player in every development project. Its role can vary from purely regulatory, such as when it issues or refuses to issue a building permit for the construction of a home, to actively entrepreneurial, such as when it assumes the role of a joint venture partner with a private developer. The public sector is often willing to take an active, entrepreneurial position in the development of a project, when that project shows promise of fulfilling important public objectives, such as increasing municipal revenues, providing public open space, and enhancing the image of the city. Many times, projects that have the potential of fulfilling public objectives require active public sector support to make them feasible. This active support often includes commitments to secure funding for the project, to assemble land for the project and to solicit developers for the project.

This chapter analyzes whether Lynn's role in the development of South Harbor can be passive and regulatory in nature, or whether the city will have to assume an active and entrepreneurial role to see the site developed. After outlining the reasons why Lynn wants to see South Harbor developed as a large mixed-use project, the history of the site is detailed and its major physical and legal liabilities are identified. Next, the magnitude of these

site constraints is assessed, which permits conclusions to be drawn about the need for active public support of the project.

Lynn Wants South Harbor

The idea to develop South Harbor came from Lynn city officials. All officials interviewed want to see the site developed because they believe that a successful mixed-use project, on the site, would provide substantial benefits to the city. One benefit of such a development is that it would make the city more alive and would lead to greater diversity and vitality in its downtown. In addition, such a development would make significant contributions to municipal revenues, which is an important benefit considering that the site has generated no virtually no income for the city in the past seven years.³ Also, by virtue of its scale and character, a successful mixed-use development at South Harbor could change the rather seedy quality of the area surrounding the site by increasing the land value of this area to a level where it would be more productive to use the land for something else. Such a development would create jobs, not only during construction, but also after the complex was operational. Finally, and most important, according to Lynn city officials, is their belief that the successful development of the site will improve Lynn's image, and give the city something of which

it can be proud.

History of the South Harbor Site

The 56-acre South Harbor site is composed of several parcels of land, each owned by one of three entities: Hy Brettman, a citizen of Lynn who owns approximately 7 acres, Harbor House, a Lynn corporation which owns approximately 4 acres and America East, a Lynn corporation which owns approximately 36 acres. (See Map Exhibit One.) The irregularly shaped site is bounded on the east by Lynn Harbor, on the south by the Saugus River, on the north by various industrial uses and on the west by Route 1A, known locally as the Lynnway.

The site and much of the area surrounding it, were created as a result of federal legislation enacted in the late 1920s to help cities create industrial property. Through this legislation the city of Lynn received financial assistance to dredge the Lynn Harbor and to use the sludge it removed from the harbor to create the land area of which South Harbor is a part. The land sat empty for many years until the city began to use it as a landfill. In addition, it erected a now-decaying bulkhead along the entire length of the property.⁴

In 1960, entities which have since become the Massachusetts Electric Company (MECO) and the New England

Power Company (NEP) purchased 85 acres of this land from the city with the expressed intention of building a power-generating station. The power companies paid \$100,000 for the property. According to Director of City Planning, Kevin Geaney, there was rumored to be a clause in the agreement of sale that provided for the land to revert to the city if the power companies did not build the power-generating station. However, no one has ever been able to produce written documentation of this reverter clause. The agreement did contain a clause, however, that permitted the city to continue to use the site as a landfill, but limited this right by giving the power companies the authority to require the city to remove the contents of the landfill at their request. The city stopped using the landfill in 1974.⁵

In 1970, Lynnfield attorney, Richard Riley, through his company, America East, presented a proposal for development of a 70-acre portion of the power companies' land to then mayor, Warren Cassidy. The mayor and city council rejected this proposal.⁶

In 1971, the power companies petitioned the Department of Public Utilities (DPU) for permission to run some major power lines across their property. The DPU and the mayor granted their permission and the power companies strung the lines which now cover the site.⁷

In 1977, Riley once again approached the city council with a development concept for 70 acres of power company

land. He told the city that he would develop the site into a \$53 million marine-related industrial park. Riley's concept, with the strong support of Geaney and new mayor, Antonio Marino, was approved by the city council. In addition, the mayor and council authorized the Lynn Economic Development and Industrial Corporation (LEDIC) to take the property by eminent domain should the power companies prove unreceptive to negotiations.⁸

The LEDIC used its powers of eminent domain to take 70 acres of the power companies' property in 1978. According to Geaney, the city did try to negotiate with the companies to buy the property but was stymied by their corporate bureaucracies. Evidently no one wanted to sign off on the agreement authorizing the sale for fear that it would later be determined by someone "higher up" that the sales price was too low.⁹

Immediately after LEDIC took the property, it entered into a land disposition and development agreement with Riley and his company, America East. The terms of the agreement, which deeded the property to Riley, provided for the city to retain an absolute right-of-first-purchase option over all of the lands transferred to Riley. In addition, it obligated America East to reimburse the LEDIC for any amount the court ultimately awarded to the power companies as just compensation.¹⁰ Riley was not successful in turning the site into a marine industrial park. By 1981, only the

Gloucester Corporation, a fish processing company, had opened a plant on the site¹¹ and one local official claims that the credit for bringing Gloucester in goes to the LEDIC.

Riley's company, never financially strong to begin with, encountered great financial difficulties and Riley sold ten acres of his parcel to the West Lynn Creamery for use as a parking lot and four acres to local car dealer, Bob Brest.¹² According to Geaney, the LEDIC did not exercise its right to purchase the 10 acres sold to the Creamery because West Lynn executives made it clear to the city that if they were unable to purchase this parcel for use as a parking lot they would not be able to enlarge their plant and would be forced to move their operation out of Lynn. The LEDIC permitted Brest to purchase his parcel as a gesture of good will; the city hoped to develop the north end of the harbor sometime in the future, which would require them to relocate one of Brest's car dealerships. In addition, city officials consider Brest a good corporate citizen. Says Geaney, "he is hard to say no to."¹³

In 1984, the city used a \$1 million state-funded Public Works Economic Development Grant to put in a road on the America East parcel which made the parcel accessible to the Lynnway (Route 1A). City officials felt that this road would enhance their ability to bring people on to the site and would spark interest in developing it. In addition,

they wanted to have the road in place so that they could begin subdividing the land and relocating the power lines, without delay, should the power companies agree to alter the location of their easements.

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Also in 1984, the city, through its Department of Community Development (DCD), hired American City Corporation (ACC), a consulting subsidiary of the Rouse Company, to prepare an assessment of South Harbor's development potential. City officials specified that ACC should only study the site's potential for supporting a mixed-use project and should not investigate other possible uses for the site. The officials made this specification because, as will be discussed in the next chapter, they had decided that the city needed a mixed-use development on the South Harbor site. ACC's report culminated with the identification of a preliminary program for the site which included hotel, commercial, retail and residential uses. This program will be discussed in detail in Chapter Three.

In May 1985, Riley and his financially strapped company entered into a purchase and sale agreement with Irwin Nebelkopf covering all of America East's holdings.

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In addition, Nebelkopf and the group he formed to buy out Riley's interest, America East Associates, prepared a development proposal for the South Harbor site. Basically this proposal does nothing more than prepare extremely simple financial projections for a modified version of the

preliminary program identified in the American City Corporation study.¹⁶ The Riley/Nebelkopf agreement obligated Nebelkopf to close on the property by August 15, 1985 and to assume America East's obligation to reimburse the LEDIC for any just compensation payment the LEDIC would be required to make to the power companies.

The obligation to close, however, was subject to several conditions. One of these conditions was that the Lynn Office of Economic Development (LOED) consent to the sale.¹⁷ On May 30, 1985, the LOED sent a letter to Nebelkopf outlining "a number of issues which must be addressed for approval of the [L]EDIC." Among other things, the LEDIC required that Nebelkopf submit a complete breakdown of his partnership with current personal financial statements from each partner.¹⁸ The LEDIC wanted to be sure that Nebelkopf and his associates would be able to make good on Riley's obligation to the LEDIC.¹⁹

On June 10, 1985 the Superior Court of Essex County awarded the power companies \$1,600,000, which was broken down as follows:²⁰

- o \$889,500 land damage award to NEP,
- o \$518,876 interest to NEP,
- o \$94,000 land damage award to Massachusetts Electric,
- o \$54,833.30 interest to Massachusetts Electric.

This figure was far in excess of the \$700,000 Nebelkopf and the city anticipated.²¹ The size of the land damage award, coupled with America East's near insolvency, all but

guarantee that America East will be unable to meet its obligation to reimburse the LEDIC for the payment the LEDIC must now make to the power companies.

Shortly after the court made the award, Nebelkopf contacted the LEDIC and asked for more time before the LEDIC acted on his development proposal; he wanted to meet with Riley and discuss the implications of the size of the damage award for their plans. The LEDIC refused to grant the delay, claiming that it had been given insufficient documentation on Nebelkopf's new development group. On June 18, 1985 the LEDIC voted to turn down Nebelkopf's proposal to take over Riley's interest and to be designated as developer of South Harbor because they were not convinced that Nebelkopf and America East Associates was capable of carrying out the project properly. In addition, the board, in an executive session, met with legal counsel to discuss the possibility of appealing the Superior Court decision, although city officials are hoping to find a way for the LEDIC to meet its obligation to the power companies without getting into prolonged litigation.

Assets and Constraints of the South Harbor Site

South Harbor's major assets and constraints have been foreshadowed in the descriptive history above. The following paragraphs discuss these assets and constraints in detail.

Constraints

The most significant development constraints on the South Harbor site are the location of the power lines, the composition of the soil, the disrepair of the seawall, the existence of the sanitary landfill, the lack of regional access, the image of Lynn and the need to resolve the eminent domain case in order to make site assembly possible.

Power lines

Although the power companies rarely give estimates for the cost of power line relocation, the city of Lynn requested and received an estimate in 1978. At that time the power companies estimated that it would cost \$3.2 million to bury the powerlines that crisscrossed the South Harbor site.²³ If the \$3.2 million figure is inflated at a 6% annual rate, the cost of burying the power lines in 1985 would be over \$4 million and in 1987 (the year the authors are using as a construction start date) it would be over \$5 million. Recently the city had R. W. Beck Associates, a transmission and sub-station engineering firm, prepare a power line burial estimate. Beck estimated that, in 1985,²⁴ it would cost \$3.8 million to bury the lines. Both the American City Corporation study and the Codman Company study state that removal of the power lines is essential if the South Harbor site is to be developed.²⁵

Soil Composition

As noted earlier, South Harbor was filled with soil removed from the bottom of Lynn Harbor. Because the site is composed of fill, all buildings will have to be constructed on pilings. The use of piles will add at least \$4 per square foot to hard construction costs.²⁶ Based on the preliminary program identified in the American City Corporation study, a \$4 per square foot premium on construction costs will increase such costs by \$4.6 million for the commercial and hotel uses and \$2.4 million for the residential uses.

Seawall

The decaying seawall is another constraint that will be costly to remedy. Estimates have shown that the cost of repairing the 1,500 foot seawall will be approximately \$2.5 million.²⁷

Landfill

Part of the South Harbor site is a landfill. Although the director of the Lynn Office of Economic Development is confident that the landfill is sanitary, director of city planning, Kevin Geaney has reserved judgment until he sees the results of a geotechnical study which the city has commissioned from Geotechnical Engineers, Inc., a geotechnical engineering firm, based in Winchester, Massachusetts. Both officials note, however, that there is likely to be a buildup of methane gas in the landfill since

that phenomena is common in landfill areas.

Geaney noted that Perini Construction Company is currently using the slurry removed during construction of Rowes Wharf in Boston to surcharge the landfill at no cost to the city of Lynn. Surcharging is a process by which methane is forced out of the landfill by the pressure of new soil being placed on top of the fill. Geaney estimated that if the city had had to pay for surcharging the site, it would have cost over \$2 million.²⁸ Although it is difficult, until the Geotechnical Engineers study is complete, to fully assess the magnitude of the landfill constraint, it is correct to say that if the landfill were "sanitary," it would not be a significant constraint to the development of the South Harbor site.

Regional Access

One of the most serious site constraints, about which little can be done, is Lynn's lack of regional access. The city is not accessible from any of the three major highways in the Boston area. (See Map Exhibit 2.) This constraint will impact greatly on the number of visitors that could be expected to support both hotel and office uses.

Image

As noted in the introduction, the city of Lynn suffers from a poor public image. Its officials are often held out as corrupt and incompetent in the media; the America East saga, which has received substantial newspaper coverage,

does little to convince people otherwise. Although, the city has, in recent years, launched a public relations campaign to change the public's perception of Lynn, the effect of this campaign is difficult to measure. Therefore, to the extent that Lynn's image scares away reputable private developers or, more importantly, potential users, it must be considered a significant constraint to South Harbor's development.

Site Assembly

The legal issues relating to the eminent domain case discussed above represent another major constraint to development. Although, in theory, the site assembly process could be started before the eminent domain case is settled, it is unlikely that any developer would embark on such a course. It is difficult at this time, to predict what will happen with the America East parcel; the LEDIC is unsure whether it will appeal the court's land damage award and the LEDIC has given no indication whether it would consider another proposal by Nebelkopf or anyone else to buy out Riley's interest in the site. In addition, it is unlikely that the site assembly problems generated by the eminent domain case will be the only site assembly problems a developer will face, since the portion of the site not affected by the eminent domain proceedings is privately owned. Thus, site assembly looms as a major obstacle that must be overcome before any active development can commence.

Assets

Although the constraints on South Harbor are severe, the site does possess a number of features that are clearly assets with respect to future development.²⁹ In particular these assets are its accessibility to Logan Airport, its waterfront location, its "gateway visibility" and its proximity to General Electric's large Lynn operation.

Accessibility to Logan Airport

Even though Lynn is not easily accessible from major regional highways such as Route 128 (Interstate 95), Route 93 or the Massachusetts Turnpike (Interstate 90), it can be reached from Logan Airport in 15 minutes via a secondary road known as the Lynnway (Route 1A). Downtown Boston can be reached from Lynn in approximately 20 minutes via the Mystic Tobin Bridge. Lynn's unusual situation with respect to accessibility - no regional access but excellent airport access - has significant implications for the type of hotel that could be successful on the South Harbor site. While Lynn's lack of regional access precludes the development of a hotel intended to serve the needs of suburban businesses, its accessibility to Logan and to downtown Boston has led the ACC analysts to conclude that a hotel with convention facilities could be successful on the site.

Location

The South Harbor site has two positive locational features. First, it is located right on the Lynnway and is

directly visible from the General Edwards Bridge, Lynn's gateway from the south. This "gateway visibility" will help attract passersby to the development and will make it easy for them to access the site. Second, the site is situated on the waterfront. Because undeveloped waterfront property is so scarce these days, especially on the north shore of Boston, South Harbor's waterfront location can only make the site more attractive. ACC's analysts strongly recommend the development of a marina, in conjunction with the residential condominiums, to take advantage of boatowners' desires for affordable slip facilities near their homes.

Proximity to General Electric

The General Electric company, located across the Lynnway from South Harbor, is Lynn's largest employer having over 7,000 people on its payroll. Recently the company reaffirmed its commitment to remain in Lynn by beginning construction in the city, of a \$52 million robotics plant known as the "Factory of the Future."³⁰ This new factory is expected to require not only many new employees but also to attract visitors worldwide who are interested in robotics. The proximity of General Electric to the South Harbor site, as well as the number of business people the company can be expected to bring to Lynn, suggest the existence of support for a mixed-use development at South Harbor.

Implications of Assets and Constraints for
the Development of the South Harbor Site

The foregoing discussion has highlighted the severe constraints to development on the South Harbor site as well as the major assets of the site. The site constraints that can be overcome, such as the removal of the landfill and the relocation of the power lines, will require a front-end investment of over \$8 million. These huge up-front costs add substantial risks to developing the site and make it likely that developing South Harbor will not work without financial assistance from the public sector. Certainly, if the city does commit a large amount of money to the project, the city must take an active role in the process to protect its investment of public funds.

Other constraints such as the sure-to-be-complicated site assemblage process, are likely to be solved only if the public sector actively assembles the land. When site assembly cannot be accomplished by an ordinary purchase and sale procedures, the public sector is often required to use its powers of eminent domain if it wants to secure a site. In the case of the South Harbor site, therefore, where the ownership of the land is divided among three different entities and where there are substantial legal problems which involve 25% of the site, it is likely that Lynn will have to take an active role in securing the site for a
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developer.

The city is, in fact, already involved with approximately 36 acres of the site, by virtue of the LEDIC's obligation to pay the power companies \$1.6 million. At this point, the LEDIC has to take some action with respect to paying the award, which actively involves the LEDIC with the site whether or not they want to be actively involved in a development effort. In addition, to the extent that the LEDIC hopes to use future revenues from South Harbor's development to recoup this \$1.6 million, it has every incentive to do all that is can to make the project a success.

Lynn's role cannot, however, be limited to site assembly. Rather, the city will have to involve itself actively throughout the entire development process. This continuous involvement is necessary because substantial development constraints on the site increase the overall risk that the project will not be the first-class, high-quality project that the city so badly wants or that it will not be financially successful.

The city cannot afford another failure similar in proportion to the Richard Riley and America East fiasco. In that case, the city did not take an active role in the development process; it used its powers of eminent domain to take 70 acres of land from the Massachusetts Electric Company and the New England Power Company and then turned the land over to Riley, without retaining any control over

the site or project. When Riley could not turn his vision of a marine industrial park into a reality, he went broke, and the city lost any chance of being reimbursed for the \$1.6 million land damage award it was required to pay to the power companies. The land lay barren for seven years; the city collected little, if any, of the taxes due on the property and the unfavorable media coverage of these happenings did substantial damage to Lynn's already poor image.

Another reason why the city will have to take an active part in the development of South Harbor is to ensure that its officials have sufficient design control and review powers to ensure that their "gateway" site is developed in a first-class, high quality manner. Strip or piece-meal development would only perpetuate Lynn's image as a second class city.

Chapter two, which follows, analyzes whether Lynn officials are capable of assuming the active role that the development of South Harbor will requires.

Chapter Two: The City's Ability to
Assume an Active Role in the Development Process

Having concluded in chapter one that the South Harbor project cannot succeed without active, public sector involvement, this chapter evaluates whether the city of Lynn is capable of successfully assuming such a role. In particular, this analysis looks for evidence that Lynn officials are able to negotiate good disposition and development agreements and are able to insulate, as much as possible, the development process from the political process, so that projects are not stopped or slowed down due to new administrations or other bureaucratic idiosyncracies. Evidence is also sought that city officials are flexible and willing to renegotiate agreements when situations change.

The analysis of Lynn's ability to engineer the South Harbor development process, proceeds in three parts. In the first part, Lynn's governmental structure is examined. This section describes the functions and authority of relevant city officials and departments and the way in which these officials and departments interact formally. In part two, the informal network of communication and decision-making, with respect to development, is examined. This section draws on information obtained in interviews with various city officials as well as on an examination of the city's role in Lynn's only other large-scale, public-private venture, Seaport Landing/Heritage Park Harbor. Part three

uses the findings discussed in parts one and two, to draw conclusions about the city's ability to structure the South Harbor development process.

Official Development-Related Entities

There are basically seven official entities in Lynn that are significantly involved in downtown development. These entities are the mayor, the city council, the Planning Department, the Department of Community Development (DCD), the Lynn Office of Economic Development (LOED), and the Lynn Economic Development and Industrial Corporation (LEDIC).³²

The city of Lynn has a mayor and council form of government. Both the mayor and the councilors serve two-year terms. There are eleven councilors, four of whom are elected at large and seven of whom are elected by wards. Current mayor, Antonio "Tony" Marino first assumed that position in 1971 when Mayor Pasquale Caggiano passed away. Marino, a former union organizer, was serving as Caggiano's administrative assistant and finished out his term. Marino ran for his first full term in 1972 and was defeated.³³ In 1975, however, he campaigned successfully and has served as Lynn's mayor continuously since that date. He is up for reelection in November of this year and, to date, faces three challengers.³⁴

Marino views the mayor's powers as rather weak because the city council, not the mayor, appoints many of the

significant city officials such as the city solicitor, the tax collector, the treasurer, and the auditor. In addition, the city council must approve many of the appointments the mayor does have the authority to make. Marino also sees the two-year term of office as detracting from the mayor's power because it makes stability and continuity in government much harder to attain.

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The Director of City Planning is elected by the members of the Planning Board who, in turn, are appointed by the mayor, subject to city council approval. Kevin Geaney, the current director has held the position since 1976. The planning department serves as the primary zoning authority for the city. It is the planning board that determines the appropriate zoning for all property in Lynn. The city has what is commonly known as a pyramid zoning system; higher uses are permitted in areas zoned for lesser (more noxious) uses. However, city council approval is required to develop a property with a higher use than that for which it is zoned. If such a request is turned down by the council there is little the applicant can do. Lynn's Board of Zoning Appeals (the members of which are appointed by the mayor) has a very narrow scope of authority and is limited to dealing with dimensional issues such as side-yard and set back requirements.

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The Department of Community Development is headed by Executive Director Edward Calnan, who is appointed by the

mayor sans council approval. Calnan has held this post since 1975. The DCD is a block grant agency that is involved in rehabilitating neighborhood housing, parks and playgrounds.

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The Lynn Office of Economic Development is charged with bringing businesses to Lynn. William Kyriakakis is the director of this office and Peter DeVeau serves as deputy director. Kyriakakis was former director Robert Baker's assistant for many years. When Baker left to take a job in the private sector, Marino appointed Kyriakakis to replace him. Kyriakakis also serves as executive director of the Lynn Economic Development and Industrial Corporation.

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The Lynn Economic Development and Industrial Corporation was formed in 1977 via state legislation. This legislation, Chapter 778 of the Massachusetts General Laws, gives the LEDIC eminent domain powers, although any exercise of these powers is subject to the approval of the mayor and city council. Chapter 778 requires that the composition of the LEDIC board include at least one member experienced in financial matters, at least one member experienced in real estate matters and at least one member experienced in municipal government. All LEDIC members are appointed by the mayor subject to city council confirmation. LEDIC board members select their executive director who signs a three-year contract with the city.

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Because Lynn has seven development-related entities, all charged with implementing the city's development policies, opportunities abound for various departments to miscommunicate or disagree. Such miscommunication or disagreement can delay or even stop development projects. Also, because the city council retains the ultimate decision-making authority for most development-related issues, development plans made by Lynn's agencies, offices and departments can always be turned down by a majority of the city council. There is no evidence, however, that the city's complicated formal structure presents such problems for Lynn officials. Basically, they manage to minimize the potential for miscommunication and city council disagreement through the existence of an informal communication network, known as the "development cabinet," which is discussed below.

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The Unofficial Decision-Makers

Every Tuesday morning Calnan, Geaney and Kyriakakis meet with Mayor Marino to brief him on all development projects with which the city is involved. Geaney and Marino refer to this group as the "development cabinet" and explain that it functions successfully as a facilitator of communication and cooperation among the various departments and offices its members represent. In general Marino leaves the technical details for his "cabinet" members to deal with

while he concentrates on lobbying for state and federal funds. Work among offices is often divided according to individual preferences and expertise.

Seaport Landing

In order to illustrate how the "cabinet" functions, its role in Lynn's other large scale public-private development will be examined. Known as the Seaport Landing/Heritage Park Harbor Project (Seaport Landing), this large-scale development is a mixed-use development which, when completed, will contain a waterfront park, a marina, and 120 luxury condominiums.

Genesis of Seaport Landing

The development cabinet was the driving force behind the development of Seaport Landing; if its members had not taken the active, entrepreneurial role that they did take, the project would never have come about. Cabinet members Calnan, Kyriakakis, Geaney and Marino had long ago inventoried the city's major resources⁴¹ and decided to focus their attention on developing the waterfront and revitalizing the downtown. Geaney, who had followed the public-private projects that were helping to revitalize Lowell, became aware that the Dukakis administration was pleased with the success of the state funded Heritage Park in Lowell and had decided to fund several other Heritage Parks in cities similar to Lowell. After Geaney identified

a site that he felt to be appropriate for a Heritage Park development, the project "went into the cabinet, and Community Development picked up the ball."⁴² Cabinet members decided collectively that Calnan would be the contact person required by the Commonwealth during the application process.

Site Assemblage

Because the city did not own the site that Geaney had identified for the Seaport Landing project, the LEDIC exercised its powers of eminent domain to take the property. The money to pay for the site was provided by the Commonwealth's Department of Environmental Management. Because the state funds provided to pay for the site were only provided as part of the Commonwealth's commitment to fund the Heritage Park project, such funds would not be available to relieve the LEDIC of its obligation to the power companies.

Developer Selection

Eventually the city, through its Department of Community Development, put out a request for proposals (RFP) for that part of the site that was to be privately developed. This request was prepared in consultation with Sasaki Associates, a land planning firm based in Watertown, Massachusetts. The RFP for Seaport Landing established fairly strict development guidelines and proposal submission

requirements for the project's development, although it noted that a private developer could "suggest modification to both the physical and programmatic guidelines based on his own assumptions regarding construction cost, marketing and financing."⁴³ The criteria for developer selection included the requirement that the developer be financially responsible and have the resources necessary to carry out the project. The developer's track record with similar projects and the excellence and appropriateness of his design concept were also mentioned as important selection criteria.⁴⁴ Three developers responded to this RFP.

Although the LEDIC was officially responsible for developer selection, the development cabinet played a critical role in the selection process. Cabinet members went so far as to interview respondents' prospective lenders, to determine for themselves whether the lender was truly prepared to commit to the project if their prospective client won the designation.⁴⁵ Officially, the LEDIC chose Nebelkopf as the city's private partner. Unofficially, the development cabinet made the decision. (As noted previously, Nebelkopf is currently trying to win designation to develop the South Harbor site.)

According to Kyriakakis, the LEDIC designated Nebelkopf as developer because it felt that his proposal "was the better proposal overall [in design and what it would ultimately do for the city]." He notes that Nebelkopf did

not have the deepest pockets of the three developers who responded and that the decision was definitely not based on the financial strength of the developers.⁴⁶ DeVeau adds that the other two candidates joined together at the last minute, on the night that all three candidates were to be interviewed for the second time, and merged their proposals. The resultant proposal was incomplete and disorganized and helped influence the LEDIC's decision to select Nebelkopf.⁴⁷

Development Agreement

In May 1982, the LEDIC, chaired at the time by Brian Magrane, entered a land disposition agreement with Nebelkopf and his organization, Seaport Development Associates, a Massachusetts limited partnership. This agreement specified that Nebelkopf and his partner, Harold Stavisky, would indemnify the LEDIC from 23% of any costs the LEDIC incurred in taking Phase One of the Seaport Landing site and from 100% of any costs the LEDIC incurred in taking Phase Two of that site. The agreement specified that \$259.9 thousand represented 23% of a pro tanto eminent domain award for the Phase One parcel, which covered 1.5 acres of the total 3.8-acre site.

In the minds of development cabinet members, this disposition agreement not only specified how the land was to be acquired and transferred to Nebelkopf but also served as a development agreement, setting out Nebelkopf's development

responsibilities. With respect to its function as a development agreement, the document leaves much to be desired. It imposes no completion schedule on the developer, requiring only that he perform "professionally," and contains no penalty provision for untimely or unsatisfactory performance. In addition, it does not set out specific development responsibilities for either party.⁴⁸

According to Geaney, however, the city did control the development's progress, although he admits that the controls did not appear explicitly in the development agreement. Geaney states that he came up with a system whereby the developer was given only enough land in Phase One of the project to put up buildings and not enough to put in the necessary parking for these buildings. No certificate of occupancy can issue for Phase One buildings unless adequate parking is provided. In order to provide this parking, though, the developer needs Parcel Two. Thus, the developer must take down the land for Phase Two before Phase One can be occupied. To the extent that this "system," devised by Geaney and agreed to by the development cabinet, provides incentives for the developer to finish promptly, it has some merit, although Geaney, DeVeau and Marino readily admit that subsequent development agreements should and will be more explicit.⁴⁹

The disposition and development agreement for the

America East site, was executed in 1978 when the city had even less experience with such agreements than it did when the Seaport Landing agreement was signed in 1982. The America East agreement, like the Seaport Landing agreement, has been criticized for not providing any mechanism by which the city could ensure that development of the site proceeded as envisioned.⁵⁰ Geaney claims that the agreement is not as one-sided as it appears. He argues that the city maintained substantial control over development on the site by not changing the site's heavy industrial zoning classification.

Geaney reasons that by maintaining the property's heavy industrial classification, the cabinet ensured that development on the America East site, for any purpose other than an industrial one would have to be approved by the city council. Since the Planning Department's recommendation is arrived at only after all members of the development cabinet agree, and since the city council rarely goes against a Planning Department recommendation, the cabinet is able to exert substantial influence over what is ultimately developed on the site.⁵¹

Geaney's argument is true as far as it goes. Any development that will occur on the South Harbor site will be controlled officially by the city council and unofficially by the development cabinet. His argument, however, does not answer the criticism with respect to the Riley proposal.

Since Riley planned to develop the site in accordance with its heavy industrial zoning classification, the city council would not have to approve of any plans for the site. As noted previously, council approval is only required when a developer desires to build a project which is not permitted on that site by the city's zoning ordinance. Thus, the only control the city could exercise over Riley's development was that which the land disposition and development agreement specified. As noted above, the agreement contained no such provisions.

All officials note that the seeming one-sidedness of the aforementioned disposition agreements, particularly the America East document, must be viewed in context. When Riley approached the city in 1977 with his marine industrial park idea, Congress was discussing the possibility of imposing a 200-mile offshore limit for foreign fishing vessels and the Economic Development Administration planned to implement programs that would provide grants to pay for the infrastructure required to develop on-shore fishing related industries. In addition, the Commerce Department appeared ready to provide subsidies to the operators of marine related industries. In 1977, Lynn's economy was in bad shape and nobody was investing money downtown. In this context, Riley's proposal looked good.

Public Sector's Role During Development

The city's commitment to and active involvement in the Seaport Landing project did not diminish after the developer was designated. The city, via its development cabinet, took an active role in design review and agreement renegotiation.

According to DeVeau, the city maintained design control because Nebelkopf, by responding to the RFP, implicitly agreed to submit to design review by the city. Although the city and Nebelkopf never executed any formal agreement to spell out who would represent the city in the design review process, and how that process would work, there is no evidence that this lack of a formal agreement caused
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problems, for either Nebelkopf or the city.

Geaney, Calnan and Kyriakakis reviewed the designs and made recommendations to the city council as to which designs should be approved. The city council followed their recommendations, as usual, although it was not obliged to do
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so.

When situations arose that required changes in designs already approved, Nebelkopf and the development cabinet renegotiated. After they had reached agreement on what changes were to occur, the cabinet presented the results of the negotiation to the city council. Without exception, the
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city council approved the cabinet's suggested changes.

The first phase of Seaport Landing was completed on schedule earlier this year. The 65 condominiums built in

the first phase have been sold at prices which average \$134 per square foot. Although development cabinet members are not entirely pleased with the final design of the condominiums, they are, on the whole, pleased with the rest of the project; certainly, it is financial success.

The City's Ability to take an
Active Role in the Development Process

The foregoing examination of the entities in Lynn that regulate development, and of the informal networking that ties these organizations together, highlights the city's strengths and weaknesses with respect to its ability to take an active role in the development process when that role is required to make a project work.

Strengths

Broadly stated, Lynn's strengths are its continuity of government, its experienced officials and their contacts with state legislators, and its "development cabinet."

Lynn's greatest strength is its continuity of personnel. In fact, it is from this continuity that many of Lynn's other strengths derive. For example, the development cabinet functions effectively largely because its members have worked together for some time. Continuity has also made it possible for city officials to gain experience in the real estate arena, to cultivate contacts with state and federal officials and to be exposed to a variety of

development projects.

Arguably, there are threats to this continuity. Would the status quo change if Marino were not re-elected in November, and if so, how? Will it be harder for the city to obtain state funds for its projects now that Thomas McGee is no longer Speaker of the House? When will the eminent domain suit against the power companies finally be resolved and what will be the result?

Lynn's biannual mayoral election will take place during November of this year. At this point it is impossible to predict the outcome of the election. The authors believe, however, that no matter what the outcome in November, Geaney, Calnan, Kyriakakis and DeVeau will retain their respective positions. Kyriakakis' contract with the city will be renewed in August 1985 for three years and both Calnan and Geaney have survived changes in administrations before. Both Calnan and Geaney are longtime Lynn residents and control a significant number of votes via extended family and friends.

Another of the city's strengths is the collective experience of Marino, Calnan, Kyriakakis, DeVeau and Geaney. All of these individuals, who currently hold elected or appointed office, have been involved with development in Lynn for over ten years. This group of people has been responsible for bringing over \$42 million of state and federal funding into the city during the past 10 years.

They possess the technical skills necessary to see a development through from conception to completion as their experience with Seaport Landing proves.

During their lengthy terms in office, Lynn officials have cultivated contacts with numerous state legislators. Most notable among these legislators is Thomas McGee, the democratic representative from Lynn who served as Speaker of the House for many years until 1984. Marino and Geaney are quick to acknowledge that the "McGee connection" often helped Lynn get its requests for state funds and other assistance reviewed. Neither Marino nor Geaney, however, believe that McGee's recent departure will make it substantially more difficult for the city to obtain state funds because they have been careful to cultivate good relationships with other influential politicians. For example, Marino, a former president of the Massachusetts Mayors Association and member of the Massachusetts Municipal Association, is a longtime Dukakis supporter. In addition, the majority whip of the Massachusetts Senate, Walter J. Boverini, resides in Lynn. Also, a Lynn-area representative supported McGee's opponent, George Kevarian, in his effort to remove McGee as Speaker of the House.⁵⁷

The authors consider the development cabinet both a strength and a weakness of the city. The negative aspects of the development cabinet will be considered in the following subsection. The positive aspects of the

development cabinet are that it promotes cooperation among key development-related entities and minimizes duplication of effort. As noted previously, the informal development cabinet exerts substantial control over downtown development. Cabinet members meet every week to discuss ongoing and future projects. These regular meetings help ensure that deadlines are met, particularly for applications for funding. In addition, they ensure that the work of each organization represented in the cabinet is not duplicated by any other member organization. Disagreements among members are settled before they take any action and, to the "outside" world, they present a united front. This decision-by-consensus method lowers the risk to a private developer that a proposal approved by one city agency will be rejected by another. As discussed below, however, it cannot guarantee a developer that a proposal approved by the cabinet will be approved by the city council.

Weaknesses

The city's three major weaknesses are (1) the fact that it suffers from a persistent problem, (2) the fact that the city council is empowered with the authority to make many development-related decisions and (3) the fact that the development cabinet believes that, regardless of the size or scope of a project, their informal method of project control will get the city what it wants and what cabinet members deem best for the city and authority.

As noted previously, the media has often portrayed Lynn officials as granting developers political favors. This image of political favoritism may have been projected to the development community via the Seaport Landing developer selection process. Because the Lynn officials did not select a developer based on the selection criteria specified in the Seaport Landing RFP, outsiders reasonably could have viewed the designation decision as arbitrary. Such a perception by the development community, could discourage developers from seeking designation to develop South Harbor.

Lynn's zoning system, discussed in part one of this chapter, gives the city council substantial control over what a developer can build on the South Harbor site. As noted previously, the council must approve proposals for any development that does not conform with the current zoning status of a site even if the proposed use is a "higher" one than that which is permitted. Although the city council has never unilaterally gone against a development cabinet recommendation, since Marino has been in office, there is no guarantee that the council will continue to follow cabinet recommendations. To the extent that the council disregards the development cabinet's recommendations, the city council controls the site program. Because this system invests the city, in particular the city council, with so much control over the final program for the South Harbor site, a sophisticated developer will probably not want to risk

having the council reject a proposal in which he has invested substantial amounts of time and money. Even if he has the support of the development cabinet, which support the authors consider extremely important, the risk of city council rejection exists.

Even though the development cabinet has worked successfully to coordinate the city's many development-related entities and to successfully complete the Seaport Landing project, it could very well hurt the city's chances of seeing a well-designed, financially successful project, developed at South Harbor, if its members insist on controlling the development process too informally. Any development on South Harbor would be far larger than the Seaport Landing project; South Harbor covers 56 acres and the privately developed portion of Seaport Landing covers less than 4 acres. South Harbor would take much longer to complete than did Seaport Landing and would, therefore, require the city to maintain control of the project for many years, through changes in personnel and elected officials. Even if the city's method of controlling the development process had worked perfectly in the case of Seaport Landing - which it did not - there is little reason to believe that it could work as well with a project as large as South Harbor.

The authors conclude that the city of Lynn has much to

offer a private developer interested in developing the South Harbor site. If members of the development cabinet are willing to change their rather informal style of controlling the development process, then there is no reason to think that the city would not be a capable public sector partner in the development of South Harbor. The city has an excellent track record in obtaining state and federal monies and has shown, through its involvement in Seaport Landing, that Lynn can successfully take an active and entrepreneurial role in the development process.

Chapter Three: The Feasibility of the Program Recommended for the Site

An analysis of South Harbor's constraints, in chapter one, led to the conclusion that the development of South Harbor can only occur if the public sector takes an active part in developing the site. The preceding chapter examined Lynn's methods for regulating and encouraging development in the city, and determined that city officials do have the ability to act entrepreneurially, when the situation calls such actions. This chapter turns away from the earlier focus on the city and analyzes the feasibility of the program proposed for the site by the American City Corporation. This analysis is presented in two parts. Part one discusses financial feasibility. The impact on the project's feasibility, of changes in critical parameters, such as public and private financing, project phasing and operating revenues, is explored through pro forma analysis. Part two discusses the market feasibility of the program. The ACC study is examined to determine whether the program it recommended for the site represents the best program for the site, or whether other programs would be more appropriate.

Financial Feasibility

The financial feasibility analysis which follows seeks to answer three questions. First, can the program suggested

for the South Harbor site, by the American City Corporation (ACC), support itself at build-out? Second, assuming the project can be made to support itself at build-out, can a first phase of the development carry the huge, up-front, infrastructure investment that is necessary? Third, if private financing alternatives cannot make the project work, what financial assistance could the public sector provide to make the program feasible? The authors designed a computer model to evaluate the impact on project feasibility of changes in critical parameters such as public and private debt and equity financing, project phasing and operating revenues. A conclusion is reached that the project is infeasible unless operating revenues can be increased substantially and unless private and public sector financial support can be obtained.

Project Feasibility at Build-Out

The issue of whether the project can support itself at build-out is basically a question of whether or not the project's projected revenues exceed the amortization of the project's projected development and operating costs, by an amount large enough to attract developers. In order to answer this question, the authors generated a series of pro formas based on the program recommended to the city by the American City Corporation.⁵⁸ This program is outlined below:

HOTEL

- o 350 guest rooms
- o \$45-\$65 per night room rate
- o 10,000-20,000 square feet of public/meeting room

OFFICE

- o 500,000-700,000 square feet of net leasable area
- o \$18-\$25 per square foot rental rate

RESIDENTIAL

- o 350-500 luxury residential condominiums
- o \$150,000-\$200,000 per unit (approximately \$150 per square foot)

RETAIL

- o 10,000-12,000 square feet of gross leasable area
- o 5-8 small, service-oriented establishments

In generating the pro formas for this feasibility analysis, the authors made several basic, conservative assumptions regarding revenues and costs. These assumptions are thoroughly documented and presented in Exhibit A. A separate feasibility study was performed for each proposed use to determine whether each use could stand alone if project phasing or a changing economy were to require that it support itself for some period of time. These studies are labeled in the appendix as Hotel, Office (which includes retail), and Residential Exhibits. Infrastructure costs are allocated to each use on the basis of each use's total

buildable square footage as a percentage of the project's total buildable square footage. Table One on the following page presents a summary of the project's development costs.

Table One
 Summary of Development Costs
 From the ACC Study at Build-Out

Development Costs =====	Costs	% of Total Development Cost for Each Use	% of Total Development Cost for Entire Program
Land Acquisition*			
Hotel	\$2,390,343	7.00%	23.00%
Office	\$4,671,000	6.00%	45.00%
Residential	\$3,258,260	7.00%	32.00%

	\$10,319,603		100.00%
Site Improvements**			
Hotel	\$2,228,878	7.00%	23.00%
Office	\$4,457,757	6.00%	45.00%
Residential	\$3,165,038	6.00%	32.00%

	\$9,851,673		100.00%
Building Improvements***			
Hotel	\$24,150,000	75.00%	19.00%
Office	\$63,540,000	85.00%	50.00%
Residential	\$39,700,000	81.00%	31.00%

	\$127,390,000		100.00%
Soft Costs****			
Hotel	\$3,573,365	11.00%	44.00%
Office	\$1,760,000	2.00%	22.00%
Residential	\$2,732,785	6.00%	34.00%

	\$8,066,150		100.00%
TOT. DEVELOPMENT COSTS			
	\$155,627,426		

- * Land Acquisition: Includes price for land, closing, and legal costs;
- ** Site Improvements: Includes powerline burial, road construction, landfill removal, and seawall repair;
- *** Building Improvements: Includes all pile construction, FF&E for the Hotel, and the amenities for the Residential;
- **** Soft Costs: Includes overhead, interest payments, financial fees, architectural commissions, etc.

A gross determination of feasibility, exclusive of debt, was made by comparing what the project would cost to build, with what the project would be worth: the difference representing the development value created by the project. This gross feasibility determination compared the capitalized values of the hotel and office components, with the cost of building each of them, by capitalizing, at a standard rate, their respective stabilized year, income stream. The analysis indicated that the project in gross terms (without debt) is infeasible for the hotel and office components at build-out. Only the residential component creates value. Table Two presents the result of this gross feasibility analysis.

Table Two
Gross Feasibility Analysis
Difference between the Capitalized Values
And the Costs to Build the Entire Program

USE ===	Cost to Build	Capitalized Value	Value Created

Hotel	\$32,342,600	\$19,380,300	(\$12,962,300)
Office	\$74,428,800	\$67,191,700	(\$7,237,100)
Residential	\$52,114,300	\$84,000,000 *	\$31,885,700

* The Capitalized value for the residential is the total sales revenue.

As Table Two above indicates, the project's anticipated

revenue stream can not justify what the project would cost to build. This gap between anticipated revenues and building costs means that a lender will not finance 100% of the project. In order to determine how much of the project he would finance, a lender will look at several common financial indicators such as debt coverage ratio and cost on cost return. Most lenders consider the debt coverage ratio the primary, rule-of-thumb, criteria for underwriting a loan⁵⁹ and usually require a coverage ratio of 110% to 125% before they will commit to financing hotel or office space. In addition, they look for a cost on cost return of at least 15%. Table Three below, presents a summary of these indicators for all the project components at buildout.

Table Three
Financial Feasibility Indicators
For the Project at Build-out

USE ===	Debt Coverage Ratio	Cash on Cost Return

Hotel	58.51%	8.99%
Office	77.38%	10.05%
Residential	-----	61.50%

As the results in Table Three indicate, the hotel, as proposed, and with slightly over 22.5% of the infrastructure costs allocated to it, is not feasible. The rate of return

on capital investment, (ROR), is well below the typical rate of 15%. In addition, even though the hotel's 35% gross operating profit as a percentage of total sales exceeds the 30% standard in the industry⁶⁰ (See Hotel Exhibit 3), the hotel's debt coverage ratio is well below the minimum percentage required to obtain financing; it cannot, in fact, generate net operating income sufficient to cover its debt service. Even if none of the infrastructure costs are allocated to the hotel, these returns barely improve. Debt coverage only increases to 68% and cost on cost only increases to 10.44%. (See Hotel Exhibit 8).

The office pro forma, calculated for the entire 700,000 square feet, programmed by ACC, includes the small component of retail space. The results of the analysis indicate that the office component is also not feasible. At the currently programmed rental rate of \$18 per square foot, and with 40% of the infrastructure costs allocated to it, Table Three shows that the office component's debt coverage ratio only reaches 77% and the value of the office component, in its stabilized year, does not equal its cost. (See Office Exhibit 5).

On the other hand, the residential component of the South Harbor project is quite profitable. At build-out the 500 condominiums and 300 boat slips gross \$67 thousand on a per condominium basis and yield over a 65% return on investment before taxes. (See Residential Exhibit 2).

The results of the analysis presented in Table Three and in the Appendix show that the South Harbor project is infeasible as programmed. The project costs too much to build, given its projected revenue stream.

While the residential component can clearly support itself at build-out, neither the office component nor the hotel component can do so. Table Four below highlights the hotel and office deficits that must be eliminated for the project to become feasible at build-out. These deficits represent the difference between the cost of each component's development and the maximum debt service each component can support. They can also be thought of as representing the amount of equity required to make each component feasible.

These deficits were derived as follows. First, in each case, the debt coverage ratio was fixed at 110%, the lowest ratio a lender would accept to finance such a deal. Second, the maximum possible debt service payments that could be supported, at current financing costs and with a 110% coverage ratio, were calculated. Third, the size of the permanent loan that these payments could support, assuming they were to be amortized over thirty years, was determined by calculating the present value of this stream of payments. This present value figure equals the maximum supportable permanent loan. Subtracting the amount of the hotel's or the offices's permanent loan from their respective

development costs, gives the amount of equity required to fund their respective deficits.

Table Four
Debt the Project Can Support at Build-Out

Total Project Cost **	Max. Debt Project Can Support*	Debt as a % of Tot. Proj. Cost	Deficit to be Elim. by Equity	Equity as a % of Total Proj. Cost

Hotel				
\$32,342,586	\$17,117,283	43%	\$15,225,304	47%
Office				
\$74,428,756	\$51,329,528	69%	\$23,099,229	31%

* The Debt Coverage Ratio is fixed at 110% in the Stabilized Yr. for each use in order to calculate Maximum debt the Project can support.

** Infrastructure is allocated upon Gross Leasable square footage.

Private Sector: Methods to Make the Project Feasible at Build-Out

There are a number of private sector financing methods that could help raise the equity necessary to make the project feasible at build-out. This section discusses three common methods: increasing the project's revenue stream, selling the project's cash flow and tax benefits via syndication and financing the project's deficit through the sale industrial revenue bonds. Because the hotel is so

important to the development of South Harbor, from Lynn's perspective, the following in-depth analysis of these alternatives has been limited to the hotel component of the program only.

Revenue Stream

Because inflation makes it possible for a developer to raise room or rental rates above those reflected in his original pro forma, it can often save a project with returns that may not, otherwise, justify investment because the revenue stream cannot cover the project's development and operating costs. Thus, reliance on inflation to increase revenues is one option for eliminating the South Harbor hotel deficit.

Even though the pro formas based upon the ACC program included an inflation adjustment of 6% per annum, this adjustment was not sufficient to eliminate the hotel deficit. In order to eliminate this deficit and to maintain a debt coverage ratio of at least 110%, room rates at the hotel would have to be raised from the currently programmed rate of \$65 per night to \$125 per night. (See Hotel Exhibit 8). This rate is comparable to the rates of many first-class hotels in Boston, such as the Marriott at Copley Place and the Back Bay Hilton. There is no data to indicate that the market in Lynn could support such a rate especially with an inflation rate that is currently less than 6% per year.

The authors conclude that reliance on inflation to increase revenues will not eliminate the hotel's deficit.

Syndication

A more realistic option for making the hotel feasible is syndication. Syndication is a vehicle by which developers raise up-front equity by selling portions of a project's projected cash flow, tax benefits and residuals to investors, known as limited partners. Typically a limited partner pays in his investment over five years and receives his returns over a period of ten to fifteen years. Limited partner investors currently look for an investment to yield at least an 18% internal rate of return. A portion of his investment goes toward paying a 10% processing fee and a 4% fee to the developer.

As Table Four above shows, approximately \$15.225 million of equity, which represents 47% of the hotel's total development costs, would have to be raised by syndication, if the room rates are to remain at the currently programmed rate of \$65 per night. A syndication to raise this \$15.225 million was simulated and the results of this simulation are presented in Hotel Exhibit 9. When room rates remain at \$65 per night and 100% of the project is allocated to the limited partners, the internal rate of return to the investors is only 1.3%, a figure far below their desired return of 18%. To explore the possibility of syndication further, a sensitivity analysis was performed which varies

room rate and the percentage of the project sold to the limited partners as a function of the project's internal rate of return. The results of this analysis indicate that, if the developer keeps at least 10% of the project, an 18% return to investors cannot be achieved unless room rates are raised to \$105 per night. At that combination, 90% of the deal must be sold to the investors. As stated earlier, the authors believe that room rate is not a variable that can be raised arbitrarily, without market justification, to make the numbers work.

Industrial Revenue Bonds

Another possibility for making the hotel feasible at build-out is to use industrial revenue bonds, (IRBs), to finance the deficit. IRBs are attractive to investors because the interest received on the investment is not taxable. Because they are tax-exempt, these bonds can be marketed at lower interest rates. The current rate on such bonds is around 10%. The bonds function essentially as a secured loan for the buyers of the bonds; the developer makes regular payments of interest and principal to the them.

In order to explore the IRB financing option, the 13% interest rate assumed in the base case for the permanent loan, was reduced to 10% and the pro-forma was recalculated. The results of this simulation indicate that, even with IRB

financing, room rates would have to be raised to \$110 per night, for the project to meet the debt coverage, the cost on cost and the valuation-to-cost criteria set forth earlier. As noted previously, an in-depth market analysis would have to be performed to determine whether such room rates could be supported in Lynn. The authors believe that they could not.

In addition, the South Harbor site currently is not eligible for industrial revenue bond financing in Massachusetts, because IRBs cannot be issued for commercial uses unless these uses are located in a designated and approved Commercial Area Revitalization, (CAR), district. In order for the site to be designated as a CAR district, the Commonwealth's Executive Office of Communities and Development must declare the area "decadent, open, and blighted."⁶¹

Although the discussion above focused on the hotel component of the project, the office component faces feasibility problems at build-out also. The authors' analysis, however, indicates that the office components problems are not as severe as those of the hotel. The office component's deficit of \$23 million represents 31% of its total development costs, as compared to the 47% represented by the hotel's \$15.2 million deficit. In addition, the rental rate necessary to fund the entire

office deficit - \$24 per square foot - represents only a 33% increase over the programmed rate of \$18 per square foot, as opposed to the nearly 100% increase in room rates necessary to eliminate the hotel's deficit. Nevertheless, more market research would have to be performed before the developer could rely on an increase in rental rates to make the project feasible.

Syndication and IRB financing are more realistic possibilities for funding the deficit and should be explored, just as they were for the hotel.

The Infrastructure Problem

Even if the project can be made feasible at build-out, by eliminating the hotel and office deficits, there remains the question of whether the first phase of the project can carry the entire project's infrastructure costs. This question arises because the major infrastructure improvements, such as power line burial and landfill removal, must be completed in their entirety during phase one of the development. Therefore, even though the cost of these improvements can and should be apportioned among the various uses to analyze the project's feasibility at build-out, the funds to pay for these improvements must be generated during the project's first phase. If the project works at build-out, which is assumed in this section, the need to fund the infrastructure improvements up front is

simply a cash flow problem, albeit a significant one.

To determine the magnitude of this cash flow problem it is first necessary to identify the uses that will comprise phase one of the project. To date there has been no phasing proposal which expressly takes into account this cash flow problem. The proposals which have been made, however, all state that, for marketing purposes, the hotel must be included in phase one. For example, the Codman study stated that the hotel should be part of the first phase because it will help project an early image of quality, excitement, and action in the development, which is important to the luxury condominium marketing effort. The city also has expressed a strong desire to see the hotel in the first phase. Therefore, for the purposes of the following discussion, the authors assume that the hotel will be built in the first phase of the project no matter what other uses are also included.

In the feasibility-at-build-out analysis, the hotel was allocated slightly over 22% of the total project's infrastructure costs. As noted previously, this allocation was based on the fact that the hotel's total square footage was equal to slightly over 22% of the entire project's square footage. For purposes of determining the magnitude of the phase one cash flow problem, however, 100% of the infrastructure costs were allocated to the hotel. Table Five below indicates that the hotel's original deficit of

\$15.2 million is increased to over \$20 million by such an allocation.

Table Five

Cash Flow Deficit for Phase One due to
Infrastructure Costs

Hotel deficit with 22.58% Allocation -----	Additional project deficit with with 100% Allocation -----
\$15,225,304	\$4,986,645

Private Sector: Phasing the Project as a Method for Solving the Infrastructure Problem

As Table Five above points out, even if the hotel's \$15 million deficit at build-out can be eliminated, the hotel cannot generate the cash flow necessary to pay for the project's infrastructure. Assuming, for the marketing reasons discussed in the previous section, that the hotel must be included in phase one, solving the first phase cash flow problem requires a determination of what use(s) could be built in conjunction with the hotel that would partially or wholly eliminate the \$5 million infrastructure-related deficit.

Building the office component in phase one does not help fund the \$5 million cash flow deficit because the office component itself requires \$23 million of equity just

to make it feasible at build-out. As noted earlier, to fund this \$23 million equity gap, rental rates per square foot would have to be increased substantially over the programmed rate of \$18 per square foot, regardless of what other methods are also used. (See Office Exhibit 6). Funding the additional \$5 million infrastructure requirement would force the rental rates to be increased even further which cannot be justified by any market analyses done to date.

Unlike the office component, the luxury condominiums and the marina can generate large amounts of cash which can be used to fund the up-front infrastructure costs. Condominiums are a great source of cash because any profit they generate can be taken out immediately unlike, that of an operating business. Because each unit produces a \$67 thousand profit before tax, only 74 units, of the type programmed, would have to be built in phase one to cover the \$5 million infrastructure deficit.

Another phasing option that may reduce the cash flow deficit, as well as the operating deficit, is to build at least a portion of all three uses - hotel, office and residential - in the first phase. Market research has shown that mixed-use developments cause a "market synergy." This synergy reportedly creates an "address" for a site, which, in turn, causes an increase in market penetration, that is reflected in higher rent levels for each use than those that would be obtained by any single use, standing alone. To the

extent that the various uses programmed for South Harbor react synergistically with one other to drive up office rents, hotel room rates and condominium sales prices, this option may increase the project's immediate revenue stream over that which is projected, thereby reducing the deficits. To make a substantial difference in these deficits, however, the increases in rental rates, room rates and sales prices, would have to be even greater than the substantial increases necessary to eliminate the operating deficit alone. As the feasibility-at-build-out section made clear, even these increases cannot be justified by any current market data. Thus, it is unlikely that any synergistic effect could raise revenues enough to make any significant difference in either operating or cash flow deficits.

Not only is it unlikely that any synergistic effect could help eliminate project deficits, but also it is unlikely that the South Harbor program could generate any synergistic effect at all. Synergy is a phenomenon found in well-programmed, mixed-use projects and, even though the South Harbor program is considered a mixed-use program by both the American City Corporation and the city of Lynn, it is, in reality a multi-use program. The current South Harbor program has a floor area ratio, (FAR), of .63, which is well below the minimum mixed-use FAR of 3.

The Public Sector: Methods for Funding Infrastructure
Deficit and for Making the Project Feasible
at Build-Out

As the previous sections make clear, the ACC program for South Harbor, suffers from massive operating and cash flow deficits, which are not likely to be eliminated by private sector funding alone. Therefore, because the public sector will probably be asked to provide the project with financial support, this section discusses two common methods which the public sector often uses to finance development projects that can not be entirely funded by the private sector. These methods are: (1) funding some or all of the project's land costs, and (2) providing a loan or grant to the project's developer. The authors conclude, however, that even public sector support will be unable to eliminate the program's massive deficits.

Funding the Land Cost

When the public sector controls the land on which development will occur, the city can reduce the developer's total project costs by reducing the developer's land acquisition costs. To reduce the developer's land acquisition costs, the city sells the land to the developer for some amount less than fair market value. It has been estimated that the land for the South Harbor site will cost the developer \$10 million. Even if the city took control of the entire site via its eminent domain powers, and wrote

down the entire \$10 million land cost, the program would still suffer from a huge deficit at build-out, as Table Six illustrates.

Table Six

	Deficit Remaining with 0% Write Down of Land Costs	Deficit Remaining with 100% Write Down of Land Costs
	-----	-----
Hotel	\$15,225,304	\$12,967,304
Office	\$23,099,229	\$18,583,229

Coupling a land "write down" with an increase in the office rental rate and the hotel room rate, can do more than a land "write down" alone, but these rates have to rise substantially to make the difference significant. A sensitivity analysis was performed, that varied the amount of the land "write down" with the office and hotel rates, as a function of each component's deficit at build-out. (See Office Exhibit 7 and Hotel Exhibit 10). The results of this analysis indicate that, when the city writes down 100% of the land cost, the remaining deficit at build-out cannot be completely eliminated until the office rates reach \$22 per square foot and the hotel rates reach \$115 per night. Once again, the authors caution that such substantial rate increases, although not unreasonable by national standards,

are not justified by any current, local market data.

Funding by Loans or Grants

Public sector financing can also be provided in the form of federal or state loans and grants. The primary source of federal funding for development projects is the Urban Development Action Grant Program, (UDAG). Congress recently approved a 25% funding cut for the UDAG program for the fiscal year 1986 which will increase the competition for UDAG loans.⁶² UDAG is required by law not to lend money to any program which does not have at least \$2.5 of private funding for every \$1 of public funding. In reality, however, loans are rarely made for projects that have less than a 4:1 ratio of private funds to public funds. Obviously, the South Harbor program, with a hotel funding deficit of 47% of total project cost and with an office funding deficit of 31% of total project cost, is not a likely candidate for obtaining UDAG funding. However, if private financing for the South Harbor project could be put in place, in an amount that represents \$4 for every \$1 of requested UDAG money, Lynn would have a chance of receiving a federal UDAG loan.

The primary source of state funds is the Community Development Action Grant Program, (CDAG). These funds are limited, however, and even if the South Harbor project were to qualify for such a loan, Lynn officials believe that the loan would not exceed \$1 million.

Based on the analysis presented in this section, the authors conclude that the ACC program, recommended for the South Harbor site, is not financially feasible and cannot be made financially feasible by any reasonable combination of private and public sector financing. If ACC's recommended program is the result of their analysts' thorough and accurate assessment of the market, and, represents, therefore, the best program for the site, the authors would recommend that the city not proceed with plans to develop the site. The authors conclude, however, that this program was derived using inappropriate market data and using a flawed method for evaluating market data. Therefore, it is likely that further studies could design a feasible program for the South Harbor site. The author's conclusion that the ACC market study is flawed is supported by the discussion which follows.

Market Feasibility

The following section will critique the ACC marketing study with an eye towards assessing: (1) the methodology of the study (2) how much the program was based upon accurate data and analysis.

The Methodology of the Study

There are two major limitations of the ACC study: (1) it assesses the mixed-use development potential of the site only and (2) it uses a methodological approach that is incorrect for a mixed-use project. Because of these constraints, the program for the South Harbor site may contain inappropriate mix of uses as well as an inappropriate density for each use.

Study Assesses Mixed-Use Development Potential Only

The ACC study commissioned by the city of Lynn does not seek to answer what, in general, would be the most appropriate use for the South Harbor site. The city had already decided that a first-class mixed-use development was best for the city. States Planning Director, Kevin Geaney, "we know what the city needs; we have a better sense about what is best for the city [than do those not familiar with Lynn.]"⁶³ Marino adds that the site is really a "part of Boston, the premiere site in Lynn for development." The site's gateway visibility, he continues, provides Lynn with an opportunity to create a more positive image for the city, which is why he and other members of the cabinet are convinced that the site should be developed as a high quality, mixed-use project with a first class hotel.⁶⁴

Thus, their purpose in hiring the American City

Corporation (ACC), a Rouse Company subsidiary, was to have a nationally reknowned firm assess South Harbor's development potential in terms of a mixed-use program only. From their perspective, a positive assessment by this firm could convince developers that the South Harbor site has good development potential and attract more developers to vie for development designation. This decision of city officials to pursue a mixed-use development program without the benefit of a highest and best use analysis, however, forecloses consideration of other potentially viable uses for the site. The authors feel that by telling ACC to study mixed-use only, the city received a program they wanted as opposed to a program which the market could support.

Incorrect Approach for Mixed-Use Project

Market studies for mixed-use projects analyze the relationships between supply and demand for each use under consideration, within specified market areas and within specified time periods, to determine what share of the market the product can capture. In addition to assessing the market share that each individual use can capture, good studies also assess the additional market share that could be captured due to market synergy that occurs in a mixed-use development. Market synergy takes two forms: (1) on-site market supports and (2) improved market image and penetration.⁶⁵

The ACC study does not analyze market potential by time

period or product type nor does it consider the market potentials which result from the synergism described above. Analyzing the market potential by time period and product type can determine to a large extent the phasing of the project. Clearly, this analysis in the case of the South Harbor site could help eliminate conjecture about how to phase the project. The additional market potential from the "synergism" of on-site market supports derived from on site hotel, office, and residential uses are not evaluated in South Harbor. This is critical for the South Harbor site because if these factors were considered, a higher density site may have been identified which would have changed the program from a multi-use development to a mixed-use development. Finally, the ability of a mixed-use development to improve the market image due to creating an "address" for the site can increase the market penetration, which also can increase the density of uses that the site can support. By overlooking the ability of a mixed-use development to create an "address", the ACC program forecloses the opportunity to increase the project density and the ability to successfully charge higher rates.

Therefore, the authors conclude that because the city imposed limitations that the development potential be evaluated in terms of mixed-use development only, and because ACC's approach for analyzing a mixed use project was flawed, the recommended program was not based upon a

thorough assessment of the market in Lynn and is an inappropriate program for the site.

Assessment of Data and Analysis

The recommendations of the ACC study can only be accurate if correct and reasonable data was used for the analysis and if the analysis was done correctly. The authors found some inconsistencies and inaccuracies in both these areas for all of the uses programmed in the ACC study. The following discussion critiques : (1) the analysis that determined the program for the various uses via a case study of the office segment and (2) the data upon which this analysis was based.

Analysis that Determined the Program⁶⁶

For the office portion of the market analysis, the ACC study stated that the Lynn site could serve a region-wide office market and in particular, it could serve "back office" Boston businesses. In order to determine what market share office use could capture, the study examined regional and Boston demand data for office space. This examination assumes that historic demand can be used to determine future demand and that future supply should equal this future demand. This analysis ignores two issues: how the current vacancy rates in Boston and the suburbs will affect the future absorption of office space, and what

office space is already planned to come on line through the remainder of the decade in Boston and the suburbs.

In addition, the office use component of the program recommended by ACC's analysts is the result of a quantum leap in their analysis: a general discussion of demand for office space was translated to a specific program that recommends the development of 700,000 square feet of first-class office space with rent levels of \$20-\$30 per square foot. Detailed analysis done to derive such a program is omitted. The authors can only conclude that minimal analysis was presented because only minimal data was collected, and that the identified program for the office is not free from imperfection.

Assessment of Data Applied

Even if the data were applied correctly, the analysis could be incorrect if the data on which it was based were incorrect. The data applied to the South Harbor is typical of most marketing studies, where the projected demand is extrapolated from historical demand. In the case of the office, the study states that because, historically, the suburban office captures 40% of new office development in the region, a demand for 6.5 to 8.7 million square feet can be expected in the suburbs through the year 1992. It also states that 10 to 13 million square feet of new office space will be needed in downtown Boston through the years 1984 and 1987 based upon historical absorption rates.

Recent research in the area of office space demand contradicts the assumption in the ACC study that historical demand can be used to predict future demand.⁶⁷ The surge in office demand in the last decade was a result of the shift in the economy from manufacturing to services. The transition to a service economy is almost complete, and little of the office demand will be from the shift of manufacturing jobs to nonmanufacturing jobs. The labor force growth rate is also declining so that only half as many jobs will be created in this decade as the last, in order to keep full employment. The fifth-generation computer technology brings to businesses the ability to replace people with computers, so that the office space requirements of businesses will decrease. These factors will cause absorption rates to decrease substantially. Developers of office space will face high vacancy rates if their building plans are based upon historic absorption rates.

The assumption that two thirds of the current demand for office space is the result of the expansion of firms as stated in the ACC study, is very misleading when demand is being quantified. Since the 1970s, two thirds of all jobs were created by firms with less than twenty employees, and eighty percent were created by firms with less than 100 employees. In fact, the recent surge in growth has been from small firms which have offset the losses of jobs from

the large, Fortune 500 firms. This information implies that the majority of future office demand will be from small firms that can not initially afford first class office rents. The ACC's analysts were probably overly optimistic to assume that tenants in new office space could afford first class office rents.

In view of the fact that the data used to analyze the market in Lynn was incorrect and incomplete, that the analysis was minimal, and that the city "hedged its bet" by specifying that only mixed-use development be studied, the program recommended by the ACC study is certainly not a reflection of what the market can support.

The authors conclude from the feasibility analysis presented in this chapter, that the ACC program is not economically feasible. The fact that this program can not work financially, however, should not preclude South Harbor from being considered for the development of another program.

Chapter Four: How the City Should Resolve the Obstacles to Development

The financial feasibility analysis presented in Chapter Three illustrates clearly that the city of Lynn will have to provide some sort of financial assistance to a private developer, if it wants to see the South Harbor site developed as a mixed-use project. Chapter One concluded that the provision of financial assistance alone would not be enough to ensure that South Harbor is developed successfully; the city would have to assume an active, entrepreneurial role in the entire development process. Chapter Two analyzed the city's involvement in another public-private partnership and concluded that Lynn officials do have the ability to act entrepreneurially.

This chapter draws on the authors' evaluations of (1) the site's constraints, (2) the decision-making and implementation capabilities of city officials, (3) the market studies performed for the site and (4) the program's financial feasibility, to answer two final questions. First, what issues must the city resolve before the development of South Harbor can occur? Second, how should the city proceed to resolve these issues?

Issues the city must resolve

There are five major issues which the city must resolve if the South Harbor site is to be developed successfully.

These issues relate to site assembly, funding commitments, program identification, developer selection and role definition.

Site Assembly

First, the city must resolve how the land designated for development should be assembled. Basically city officials have two options for dealing with site assemblage: they can have the LEDIC exercise its powers of eminent domain and take the land the city does not already control or they can act behind the scenes to facilitate a private agreement between the owners of this land and whomever the LEDIC designates as developer.

City officials have expressed some hesitation about taking the land by eminent domain because of their experience with Riley and America East. However, it is unlikely that any private developer will pursue land assembly on his/her own. If the city does not commit to helping with the site assembly process, few developers will be willing to spend time and money developing a proposal for the South Harbor site, since they will have to assume the risk of site assembly. In addition, 25% of the site is still owned by Riley's America East company and the eminent domain proceeding involving the America East parcel will make it extremely difficult for any private developer to purchase it. Any developer signing a purchase and sale

agreement with America East, will undoubtedly be required to seek the approval of the LEDIC to close on the property, just as Nebelkopf was required to do in June 1985. As pointed out previously, the LEDIC did not permit Nebelkopf to close on the property because it did not feel he had sufficient financial resources to reimburse the LEDIC for the \$1.6 million the LEDIC owes Massachusetts Electric and New England Power.

If the city does pursue eminent domain proceedings, however, the proceedings will take a long time. The action to take the power companies' land commenced in 1978 and the damage award was not made until 1985, seven years later. To the extent that the land acquisition costs for South Harbor have a significant bearing on the project's feasibility, it would be difficult for a private developer to formally commit to a project if he could not be assured of his land costs up front. Certainly the LEDIC could proceed with eminent domain proceedings with the intention of writing down the land costs to the developer, but, in that case, the LEDIC risks being required to pay the owners an amount far in excess of what it anticipated: a situation not unlike that which occurred in the power companies' taking. If the LEDIC enters an agreement with a developer that requires the LEDIC to receive any compensation or reimbursement from the revenues of the future development, the LEDIC risks not being paid if the project fails.

Commitment to Fund

Another important thing that the city must do is to commit to fund the project at some level and to determine what form this financial assistance will take: capital grant, loan, land write-down or some combination of the three. It is also possible that Lynn could fund certain improvements to the site through general obligation bonds, if taxpayer approval was obtained. In any event, Lynn must take some action to help fund the project, since the financial feasibility analysis in chapter three determined that the project, as programmed, is not financially feasible at build-out and that the first phase of the project cannot support the approximately \$8 million infrastructure investment that is required up-front.

As earlier chapters have noted, Lynn officials have cultivated many political contacts at the state and federal levels and have been quite successful in obtaining funds for the city's development projects and have brought in over \$42 million to Lynn since 1977. Seaport Landing, in particular, received funding from three state agencies, although, as noted previously, much of this money was available only because the project was being funded as a Heritage Park and would not be available for South Harbor. In addition, state CDAG programs and federal UDAG programs have both been cut back, and it will be much more difficult in the future to obtain such funds.

Identify Appropriate Program

Third, a program must be identified that is viable from both a market and financial perspective; as the previous chapter makes clear, the program suggested by the ACC study meets neither of these criteria. The ACC study, at the order of the city, analyzed the site for a mixed-use program only; no other potential use for the site was considered. In addition, the ACC program suffered from flawed methodology, flawed analysis and flawed data.

Identifying a good program for the site is a task which the city should not undertake without developer input for, in the final analysis, the project has to make economic sense to a developer before he will become involved. City officials must remember that the ACC study was only a preliminary assessment of the site's development potential and that their program was only a first cut at identifying the right product for the site.

Criteria for Developer Selection

Fourth, city officials must reach a consensus on what type of developer they are looking for and then set out specific criteria that a developer will have to meet to win designation. The developer, at a minimum, should be required to prove that he has sufficient financial resources to stay with the project through completion, that he has assembled a first-rate design and construction team, and

that he has a good track record, particularly with large scale, mixed-use projects. In addition, given the site assemblage issues with South Harbor, the developer should be required to include a strategy for obtaining site control in his proposal. Certainly this strategy could include having the LEDIC take the site by eminent domain, but other strategies, such as having Brettman and Harbor House become limited partners in the development in return for contributing their property, may prove workable.

Once the criteria for selection have been made specific, the LEDIC must stick to these criteria closely, when making the selection. As noted in Chapter Two, the LEDIC did not choose Nebelkopf as the developer for Seaport based on all of the criteria listed in the RFP for that site. The LEDIC's disregard of its own selection criteria can be attributed to the fact that only three developers responded to the RFP and to the fact that two of those developers joined together at the last minute to present an incomplete proposal. Nevertheless, by ignoring the published selection criteria when it made the developer designation, the LEDIC gave the impression that its decision was arbitrary, and arguably, helped perpetuate Lynn's image as a place where officials grant political favors to select developers. The need to set appropriate criteria and then to require that the candidates for selection meet these criteria, is especially critical in the case of South

Harbor, where any development on that site will be more complicated and larger than the development at Seaport Landing. In addition, South Harbor will have a much longer build-out time than will Seaport Landing.

Role Definition

Finally, city officials must clearly define their role in the project. This definition must go beyond characterizing their position as an "active" one. Officials must decide how they will manage the development process after the developer has been designated, so that the city gets the first-class, high-quality development that it wants. For example, in Seaport Landing, development cabinet members Calnan, Geaney and Kyriakakis, exercised some design review authority but the scope of their authority was not clearly defined in any agreement with the developer. Any decisions they made had to be approved by the city council to be binding on the developer and although the city council did approve all of the cabinet's recommendations in the Seaport Landing case, they were under no obligation to do so. Because this method of design review did not get the city all that it wanted in the Seaport Landing development, it is naive to think that this method would work at South Harbor, especially since the proposed South Harbor development is over 10 times the size of Seaport Landing.

Because the proposed South Harbor development is so

much larger and more complicated than any project attempted by the city to date, it may be appropriate for the city to set up a "South Harbor Redevelopment Agency" to manage the project from beginning to end. The development cabinet's informal method of controlling Seaport Landing may not be enough to control the development of South Harbor. All changes and renegotiations between the city and the developer, that occurred during Seaport Landing's development, had to be approved by the city council. This procedure did nothing to insulate the development process from the political process in Lynn and, in theory, exposed the developer to the whims of the city council. Also, because the city's negotiators - the cabinet - did not have the final authority to agree to a solution, the city's bargaining position in renegotiations was weaker than it had to be. A redevelopment agency that was given the authority to make all decisions with the respect to South Harbor's development, would concentrate the city's authority in a formal, less political organization than the city council.

In addition, the establishment of a redevelopment authority will make it clear to potential developers that Lynn will be selecting a developer and managing the development of South Harbor in a thoroughly professional manner.

How the city should proceed

This section presents the authors' recommendations for how Lynn officials should proceed with their efforts to develop South Harbor. Basically these recommendations suggest an order which the city should follow in attempting to resolve the issues presented above.

Establish a South Harbor Redevelopment Agency

The city's first priority should be to establish a redevelopment agency. As noted above, such an agency should be given the authority to manage the development of South Harbor and to represent the city's interests throughout the life of the project. One of this agency's first tasks should be to hire consultants to prepare an RFP for the South Harbor site. Putting out an RFP will help attract more developer interest than will more informal solicitation measures and will spark excitement about the site and its potential for development.

In addition, to establishing development criteria for the site, the RFP should state explicitly what criteria will be used to select a developer for the site. These criteria should require the developer to present proof that he has sufficient financial resources to stay with the project through completion, that he has assembled a first-rate design and construction team, that he has a good track record with mixed-use projects and that he has come up with

some reasonable strategy for obtaining site control in his proposal.

Commit to Assembling the Site

The LEDIC should commit to taking the site by eminent domain unless a developer can come up with a reasonable strategy for site assembly that does not involve the public sector. The LEDIC should plan to protect itself against another Riley and America East problem, by executing with the developer an agreement that clearly states how the LEDIC will be reimbursed for the expenses it incurs in taking the land, how much the LEDIC will be reimbursed for taking the land and what remedies the LEDIC would have against the developer if the developer did not meet his reimbursement obligations. In addition, the LEDIC should require the developer to be bonded. Basically, bonding the developer ensures the LEDIC that, whether or not the developer can meet his obligations to the LEDIC, the LEDIC will get paid what the developer owes.

Select a Developer

Before proceeding with further market studies or financial analyses, the redevelopment agency should select a developer based on the criteria specified in the RFP.

The developer's commitment to the project and to the city will be enhanced when he plays an integral part in the process from the very beginning. In addition, involving the

developer from the start will allow the city to take advantage of his knowledge and experience during the time that the final program is being worked out. No one knows better than the developer, himself, what his resources are and what type of financial help makes the most sense for him. Thus, he can help determine the best way for the city to fulfill its commitment to fund part of the project and he can work with market analysts to help design the final site program.

Line up Project Financing

During the developer selection process, the city should begin its search for project funding. Because the Community Development Action Grant Program (CDAG) and the Urban Development Action Grant Program (UDAG) have limited funds available, the city should work hard to put together a competitive funding application. As noted in Chapter Three, UDAG and CDAG monies are rarely distributed to projects that have less than a 4:1 ratio of private dollars to public dollars. Thus, the city should take an active role in helping the developer secure private financing commitments for the project.

Because IRB's are private funds for purposes of a UDAG application, the city should attempt to have South Harbor declared eligible for IRB funding. To do so, the city will have to make application to the Commonwealth's Executive Office of Communities and Development to have the site

designated as a commercial area revitalization, (CAR), district. As noted previously, this will require that the site be found to be "open, blighted and decadent."

Finally, city officials should use their political contacts to scout out other possible sources of state funds, just as they did for Seaport Landing.

Formalize Relationships

The relationship between the developer and the redevelopment agency should be formalized in a development agreement far broader in scope than either the Seaport Landing or the America East development agreements. Both agreements imposed no completion schedule on the developer. They contained no penalty provisions for untimely or unsatisfactory performance. In addition, they did not set out specific development responsibilities for either party, which resulted in the America East parcel laying empty for seven years. Also the agreements did not address design review issues, which resulted in city officials not being wholly satisfied with the final design of Seaport Landing's condominiums.

Therefore, a comprehensive development agreement that clarifies design review procedures, private and public sector responsibilities and performance criteria, benchmarks for funding and penalties for untimely or unsatisfactory performance, should be negotiated. The execution of such an

agreement will protect the developer from arbitrary actions by the city and will give the city the authority necessary to ensure that the developer performs in an acceptable manner and to prevent a situation similar to that which occurred with the America East parcel.

Once the relationship between the developer and the redevelopment agency is clarified, they can work together to define an appropriate final product for the South Harbor site. This will involve the performance of in-depth market studies to determine what the market will support at South Harbor and to identify various programs that match these market projections. It will also involve performing financial feasibility analyses to determine whether these programs are economically feasible. Undoubtedly numerous iterations between market-supported programs and financially feasible programs will occur before a program that is feasible from both a market and financial perspective is identified.

Notes

1. The following sources were used for this section: [Boston] Globe Spotlight Team, consisting of editor Stephen Kurkjian, reporters Thomas Palmer and Peter Mancust, researcher M. E. Malone, "Spotlight Series on Lynn," The Boston Globe, June 24-29, 1984; Barbara Carlson, "After the Fire," New England Business, April, 19, 1982; Earle N. Stern et. al., "The Fire [and related articles]," [Lynn] Daily Evening Item, November 30, 1981.
2. American City Corporation, Assessment of Development Potential:Lynn South Harbor, January 1985.
3. Taylor Armerding, "American East," North Shore Sunday, May 6, 1985.
4. Interview with Kevin Geaney, Director of City Planning, June 20, 1985.
5. Ibid.
6. Ibid.
7. Ibid.
8. Interview with William Kyriakakis, Director, Lynn Office of Economic Development, June 6, 1985.
9. Interview with Kevin Geaney, June 20, 1985.
10. Development Agreement, Lynn Economic Development and Industrial Corporation and America East Corporation/Lynn Marine Industrial Park, Inc., September 13, 1978; Taylor Armerding, "America East," North Shore Sunday, May 6, 1984.
11. Interview with Kevin Geaney, June 20, 1985.
12. Taylor Armerding, "America East," North Shore Sunday, May 6, 1984.
13. Interview with Kevin Geaney, June 20, 1985.
14. Telephone conversation with William Kyriakakis, July 18, 1985.
15. Purchase/Sale Agreement, Lynn Marine Industrial Park, Inc. to Irwin Nebelkopf, May 18, 1985.
16. America East Project Development Statement, Undated.

17. Purchase/Sale Agreement, Lynn Marine Industrial Park, Inc. to Irwin Nebelkopf, May 18, 1985.
18. William Kyriakakis for the Lynn Office of Economic Development and the Lynn Economic Development and Industrial Corporation, letter to Irwin Nebelkopf, May 30, 1985.
19. Interview with William Kyriakakis and Assistant Director of the Lynn Office of Economic Development, Peter DeVeau, June 13, 1985.
20. Telephone conversation with Peter DeVeau, August 5, 1985.
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26. Interview with Kevin Hurton, Vice President, Vappi Construction Company, June 18, 1985.
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33. Peter Mazareas, Corporate Politics at the Community Level, unpublished undergraduate thesis, Department of

Government, Harvard University, April 1973.

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35. Interview with Antonio Marino and Peter DeVeau, June 20, 1985.

36. Interview with Kevin Geaney, June 20, 1985.

37. Interview with Antonio Marino and Peter DeVeau, June 20, 1985.

38. Interview with William Kyriakakis, June 6, 1985.

39. "An Act Creating the Economic Development and Industrial Corporation of Lynn," Chapter 778 of the Legislative Acts of 1977, Commonwealth of Massachusetts.

40. The following sources were used for this section: Interview with Kevin Geaney, June 20, 1985; interview with William Kyriakakis, June 6, 1985; interview with William Kyriakakis and Peter DeVeau, June 13, 1985; interview with Antonio Marino, June 20, 1985; Sasaki Associates, Inc., Heritage Park Harbor Project: Development Guidelines and Developer Submission Requirements, undated; City of Lynn Zone Ordinance as Amended, March 1981; Purchase/Sale Agreement, Lynn Marine Industrial Park, Inc. to Irwin Nebelkopf, May 18, 1985; Land Disposition Agreement, between Lynn Economic Development and Industrial Corporation and Seaport Development Associates, May 19, 1982.

41. The cabinet identified Lynn's other major resources as (1) the Lynn Woods, the largest municipal park in the commonwealth, (2) the housing stock in its neighborhoods, (3) the unique downtown buildings and (4) the city's skilled labor force. Interview with Kevin Geaney, June 20, 1985.

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44. Ibid.

45. Interview with Kevin Geaney, June 20, 1985.

46. Telephone conversation with William Kyriakakis, July

18, 1985.

47. Telephone conversation with Peter DeVeau, July 30, 1985.

48. Land Disposition Agreement, between Lynn Economic Development and Industrial Corporation and Seaport Development Associates, May 19, 1982.

49. Interview with Kevin Geaney, June 20, 1985.

50. [Boston] Globe Spotlight Team, "Spotlight Series on Lynn," The Boston Globe, June 25, 1984.

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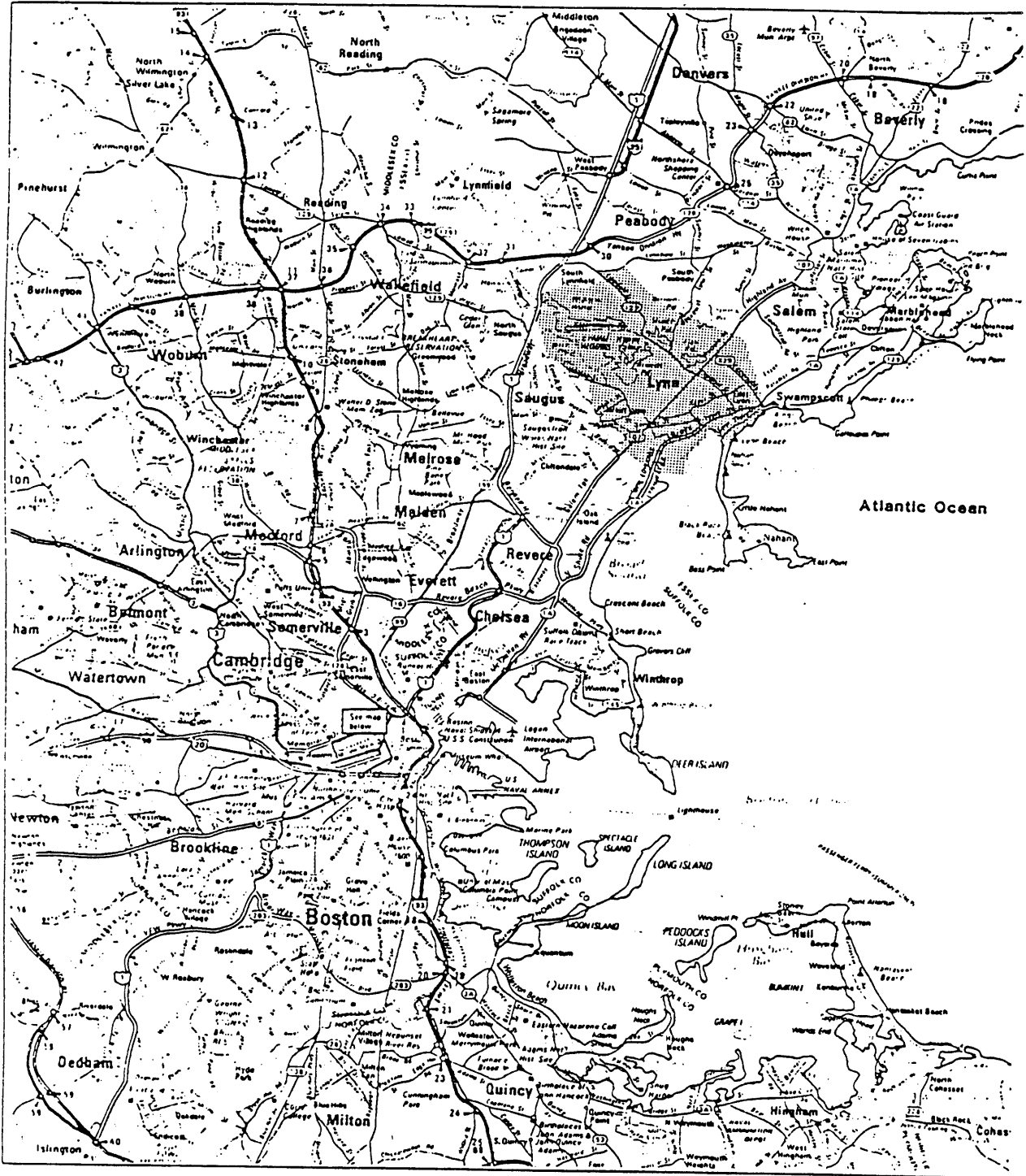
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64. Interview with Antonio Marino and Peter DeVeau, June 20, 1985.
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66. American City Corporation, Assessment of Development Potential: Lynn South Harbor, January 1985.
67. David L. Birch, Emerging Business Trends Affecting Future Real Estate Investment, transcript of talk given at the MIT Center for Real Estate Development's Spring regional luncheon, Houston, Texas, April 24, 1985.
68. Bernard J. Frieden and Lynne B. Sagalyn, "Downtown Shopping Malls and The New Public-Private Strategy", unpublished working paper in the Department of Urban Studies and Planning, Massachusetts Institute of Technology, July 3, 1984.

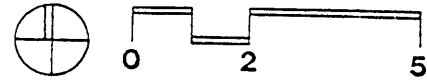
APPENDIX

MAP EXHIBITS

EXHIBIT ONE



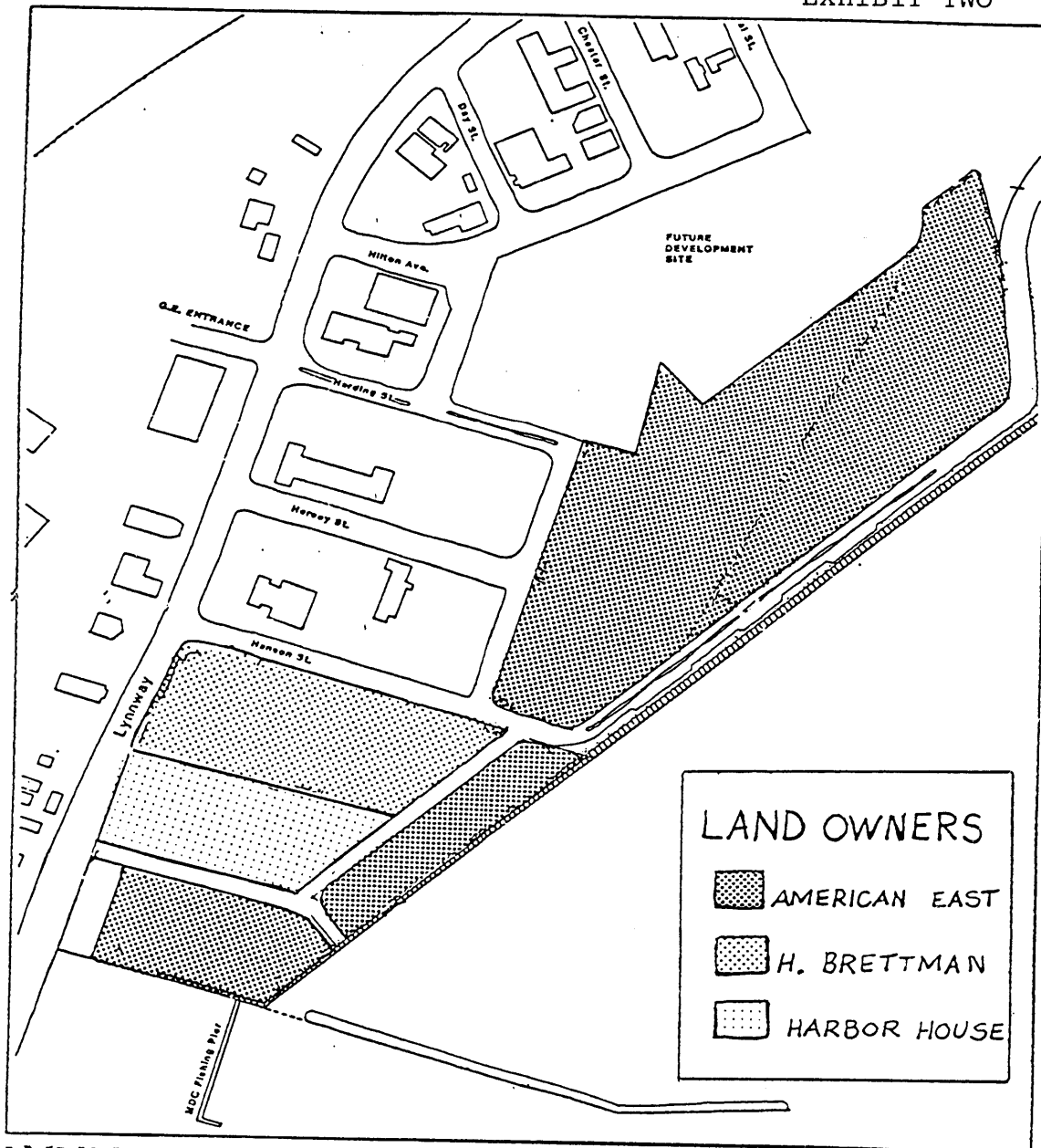
LYNN, MASS.



Location Map

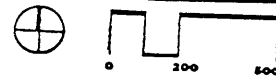
AMERICAN CITY CORPORATION

EXHIBIT TWO



LYNN, MASS.

Site



FINANCIAL FEASIBILITY EXHIBITS

EXHIBIT A
FINANCIAL FEASIBILITY FOR THE SOUTH HARBOR SITE
ASSUMPTIONS

HOTEL

Financing: The loan type is categorized as Debt/Equity Joint Venture for a Major Project which is 100% financed by a lender. The term is for 15 years with a 30 year amortization period, interest at 13% compounded monthly; Payments include principal and interest, and the lender receives a 10% - 10.5% cumulative preferred return plus 40% to 60% of cash flow and residuals.

Occupancy: Occupancy in downtown hotels dropped to 69% in 1983 from 70% in 1982, and is expected to continue to drop. With the increase in the supply of hotel rooms, 1984 saw occupancy drop to 64%. Hotels surveyed in the suburban area are experiencing the following occupancy levels.

<u>HOTEL</u>	<u>OCCUPANCY RATE</u>
Colonial Hilton	60% - 65%
Sheraton Tara	60%
Ramada Inn (E.Boston)	65%
Logan Hilton	69%

In view of this current trend, the occupancy level chosen for the analysis was a conservative assumption of 55%.

**Expenses
and
Revenues:**

Basic assumptions in regards to Expenses and Revenues have been made based upon information obtained by the 52nd Annual Report on Hotel and Motor Hotel Operations, conducted by the consulting arm of the accounting firm of LAVENTHOL & HORWATH as well as information from an interview with the THE BEACON COMPANIES, a developer and operator of hotels.

**Development
Costs:**

The Land acquisition cost and the site infrastructure costs (ie. Seawall repair, landfill removal, powerline burial) were based upon various assumptions. Land Acquisition cost was based upon the recent estimate submitted by American East Associates in lieu of a recent appraisal. The cost for powerline burial, given in 1978 dollars, was an estimate

given by the New England Power Company to Lynn City Officials. Landfill removal was determined by conducting a takeoff of the volume that was to be filled from "Proposed Closure Configuration - Solid Waste Area" submitted to the authors by the Lynn Office of Economic Development with suggested pricing for such work given by VAPPI CONSTRUCTION. VAPPI also gave information used to price pile construction, condominiums, as well as office construction.

Apportionment
of Infrastructure
& Land Costs:

Some methodology had to be adopted when allocating Infrastructure and Land Costs. Certainly, the Internal Revenue Service would be objectionable to 100% allocation of these costs to one use in order for the developer to maximize his/her financial position. Therefore, allocation was based upon Floor Area Ratios (FAR) which basically apportioned by % of square feet for a use based upon the project's total square footage.

Capital
Gains:

The tax treatment for disposition of the Hotel or Office space was treated as capital gains, since the property was held for investment purposes. Because the asset has been held for longer than 6 months, the gain is long term and only 40% is taxed at ordinary income and 60% is excluded from tax. Assuming that the developer will be in the 50% tax bracket, the effective tax rate will be 20%.

Depreciation:

Depreciation is assumed to be 18 year straight line.

OFFICE

Financing: The financial instrument for the office was a

Bullet Loan that charges interest only at 14% with a 15 year call. The loan amount was for 100% of the costs. Also included were estimated fees for mortgage brokerage, construction loan brokerage and an origination fee.

Occupancy: Certainly the 700,000 square feet will not be developed at one time, and occupancy levels will vary over the development period. So the assumption of a vacancy rate of 7% was chosen to represent a "median", since the current overbuilding could cause this rate to rise to 15%.

Depreciation: Depreciation is assumed to be 18 year straight line.

Capital Gains: Same as Hotel.

RESIDENTIAL

Development Costs: The majority of the assumptions in regards to construction costs were obtained by VAPPI CONSTRUCTION and THE BEACON COMPANIES.

Revenues: The condominium and marina revenues were obtained by The Codman Company, Inc. Study.

Tax Treatment: The developer is taxed at the ordinary rates (50%) on the sale of condominium units.

HOTEL EXHIBITS

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HOTEL FEASIBILITY
 SOUTH HARBOR DEVELOPMENT
 LYNN, MASSACHUSETTS
 JUNE, 1985

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DEFINITIONS:

Revenue

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Number of Rooms (NR)	350
Occupancy Rate (OCC)	55.00%
Room Rate (RR) **	\$65.00
Beverages (BEV) **	8.20%
Food (F) **	18.70%
Telephone (TEL) **	2.60%
Other Income (OI) **	0.40%

** Measured as a percent of Total Revenue

* Measured as a percent of Departmental Revenues

Expenses

=====

Room Payroll & Other (RPO) *	20.00%
Food Cost (FC) *	90.00%
Beverage Cost (BC) *	58.00%
Franchise Fee (FF)**	2.80%
Telephone (TC) *	95.00%
Admin. Costs (AC) **	6.50%
Management Fee (MF) **	4.00%
Advt. & Business Promo (ABP)	3.00%
Maintenance (MAIN) **	3.00%
Energy Costs (EC) **	4.00%
Insurance (INS) **	4.50%
Real Estate Taxes (RET)	
Capital Reserve (CR) **	1.00%
Advt.&Bus.Promo Assess.(BP)**	1.40%

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FINANCING	
=====	
Construction Loan (CL)	\$27,491,198
Interest Rate (ICL)	13.00%
Permanent Loan (PL)	\$27,491,198
Interest Rate (IPL)	13.00%
Amortization (AMORT)	30
Term (T)	15
Discount Rate (DR)	
Lender's Equity	
% of CF & Residuals	50.00%
10% Cumulative Preferred	

DEVELOPMENT COSTS	
=====	
Development Fee (DF)	3.00%
Const Mgmt. Fee (CMF)	2.00%
Total Gross Sq. Ft. (GBA)	350,000
Structured Pkg. Spaces (SP)	0
Land Acquisition (LA)	10,000,000
Seawall Cost (SC)	2,500,000
Road Cost (RC)	660,000
Landfill Removal (LR)	1,304,696
Piles (PIL)	1,400,000
Powerline Submersion (PLS)	5,406,333
General Apportion for Infrastructure	
(APP)	22.58%

Apportionment of Infrastructure and Land Acquisition
Allocated by Square Feet

Hotel	22.58%
Office	45.16%
Residential	32.26%

EXHIBIT 1
DEVELOPMENT COSTS

COST ITEMS	LUMP SUM	% OF HARD COST	% OF TOTAL COST	% OF F.F. & E	COST PER ROOM	COST PER SQ. FT.
Land Acquisition	\$2,258,000					
Construction Costs						
Road Construction	\$149,028					
Base Building					\$55,000	
Structured Parking					\$0	
Construction Mgmt. Fee		2.000%				
Seawall	\$564,500					
Powerline Submersion	\$1,220,750					
Landfill Removal	\$294,600					
Pile Construction	\$1,400,000					
F.F. & E					\$10,000	
Soft Costs						
Interior Design	\$30,000					
Design Consultant	\$100,000					
Architectural & Eng.	\$200,000					
Legal	\$100,000					
Other Prof. Services	\$50,000					
Development Fee			3.000%			
Franchise Fee	\$50,000					
Testing and Inspection						\$0.75
Pmts, Lic., & Surveys		1.000%				
Advertising & Promo					\$5,000	
Pre-opening						
Insurance						
Title			0.100%			
Bldrs Risk/Liability		0.300%				
Real Est. Taxes	\$30,000					
Interest During Const. (13.00% for 15 months)			13.000%			
Financing Fees			4.000%			
Working Capital					\$1,000	
Contingency			5.000%			
TOTAL	\$6,446,878	3.300%	25.100%	0.000%	\$71,000	\$0.75
TOTAL NOT INCLUDING CONST.	\$6,297,850	1.300%	25.100%	0.000%	\$16,000	\$0.75
CALCULATE TOT. HARD COSTS	\$19,794,927					

EXHIBIT 2
PRELIMINARY ESTIMATE

Construction Start: 1987

ITEM	TOTAL COST	COST PER ROOM
Land Acquisition	\$2,258,000	\$6,451
Construction Costs		
Road Const.	\$149,028	\$426
Base Building	\$19,250,000	\$55,000
Struct. Parking	\$0	\$0
Const. Mgmt. Fee	\$395,899	\$1,131
Seawall	\$564,500	\$1,613
Powerline submersion	\$1,220,750	\$3,488
Landfill Removal	\$294,600	\$842
Pile Construction	\$1,400,000	\$4,000
F.F. & E.	\$3,500,000	\$10,000
Soft Costs		
Arch. & Eng.	\$200,000	\$571
Interior Design	\$30,000	\$86
Design Consult.	\$100,000	\$286
Legal	\$100,000	\$286
Other Prof. Services	\$50,000	\$143
Development Fee	\$970,278	\$2,772
Franchise Fee	\$50,000	\$143
Testing and Inspection	\$262,500	\$750
Perm., Lic., & Surveys	\$197,949	\$566
Advertising & Promo	\$1,750,000	\$5,000
Pre-Opening	\$0	\$0
Insurance	\$50,000	\$143
Title	\$32,343	\$92
Bldrs. Risk/Liability	\$59,385	\$170
Real Estate Taxes	\$30,000	\$86
Int. during Const.	\$2,102,268	\$6,006
Financing		
Financing Fees	\$1,293,703	\$3,696
Working Capital	\$350,000	\$1,000
Contingency	\$1,617,129	\$4,620
TOTAL	\$32,342,586	\$109,367

EXHIBIT 3
STATEMENT OF PROJECTED INCOME
1987 - 1997

YEAR	Development 1987	Development 1988	Operating 1989	Operating 1990	Stabilized Yr. 1991	Operating 1992
Rooms						
Available			350	350	350	350
Occupancy %			55.00%	55.00%	55.00%	55.00%
Rooms Occupied			192.5	192.5	192.5	192.5
Average Rate (inflated 6% annually)			\$65.00	\$68.25	\$71.66	\$75.25
Revenue						
Rooms			\$4,567,063	\$4,795,416	\$5,035,186	\$5,286,946
Food			\$1,218,318	\$1,279,234	\$1,343,195	\$1,410,355
Beverage			\$534,236	\$560,947	\$588,995	\$618,444
Telephone			\$169,392	\$177,861	\$186,754	\$196,092
Conference			\$0	\$0	\$0	\$0
Other Income			\$26,060	\$27,363	\$28,731	\$30,168
TOTAL REVENUE	0	0	\$6,515,068	\$6,840,821	\$7,182,862	\$7,542,005
Development Expenses	\$9,702,776	\$22,639,810				
Departmental Expenses						
Rooms			\$913,413	\$959,083	\$1,007,037	\$1,057,389
Food			\$1,096,486	\$1,151,310	\$1,208,876	\$1,269,319
Beverage			\$98,247	\$103,160	\$108,318	\$113,733
Telephone			\$160,922	\$168,968	\$177,417	\$186,288
Total Dept. Exp.	0	0	\$2,269,068	\$2,382,521	\$2,501,647	\$2,626,730
General & Unallocated Expenses						
Admin. & General			\$423,479	\$444,653	\$466,886	\$490,230
Franchise Fee			\$182,422	\$191,543	\$201,120	\$211,176
Advt. & Business Promo			\$195,452	\$205,225	\$215,486	\$226,260
Advt. & Business Prom Assess.			\$91,211	\$95,771	\$100,560	\$105,588
Energy			\$260,603	\$273,633	\$287,314	\$301,680
Maintenance			\$195,452	\$205,225	\$215,486	\$226,260
Management Fee			\$260,603	\$273,633	\$287,314	\$301,680
Total Gen'l & Unallocated Exp.	0	0	\$1,609,222	\$1,689,683	\$1,774,167	\$1,862,875
TOTAL EXPENSES	\$9,702,776	\$22,639,810	\$3,878,290	\$4,072,204	\$4,275,814	\$4,489,605
Gross Operating Profit	(\$9,702,776)	(\$22,639,810)	\$2,636,778	\$2,768,617	\$2,907,048	\$3,052,400
Less: Taxes & Insurance Reserves			\$293,178	\$307,837	\$323,229	\$339,390
Plus: Constuction Loan	\$9,702,776	\$22,639,810	\$65,151	\$68,408	\$71,829	\$75,420
NET AVAILABLE FOR DEBT	\$0	\$0	\$2,278,449	\$2,392,372	\$2,511,991	\$2,637,590
GROSS OPERATING PROFIT AS A % OF TOTAL			34.97%	34.97%	34.97%	34.97%

Operating 1993	Operating 1994	Operating 1995	Operating 1996	Operating 1997	Operating 1998	Sale 1999	
350	350	350	350	350	350	350	350
55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%
192.5	192.5	192.5	192.5	192.5	192.5	192.5	192.5
\$79.01	\$82.96	\$87.11	\$91.46	\$96.03	\$100.84	\$105.88	\$111.17
\$5,551,293	\$5,828,858	\$6,120,301	\$6,426,316	\$6,747,631	\$7,085,013	\$7,439,264	\$7,811,227
\$1,480,873	\$1,554,916	\$1,632,662	\$1,714,295	\$1,800,010	\$1,890,011	\$1,984,511	\$2,083,737
\$649,367	\$681,835	\$715,927	\$751,723	\$789,309	\$828,775	\$870,213	\$913,724
\$205,897	\$216,192	\$227,001	\$238,351	\$250,269	\$262,782	\$275,921	\$289,717
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$31,676	\$33,260	\$34,923	\$36,669	\$38,503	\$40,428	\$42,449	\$44,572
\$7,919,106	\$8,315,061	\$8,730,814	\$9,167,355	\$9,625,722	\$10,107,008	\$10,612,359	\$11,142,977
\$1,110,259	\$1,165,772	\$1,224,060	\$1,285,263	\$1,349,526	\$1,417,003	\$1,487,853	\$1,562,245
\$1,332,785	\$1,399,425	\$1,469,396	\$1,542,866	\$1,620,009	\$1,701,010	\$1,786,060	\$1,875,363
\$119,420	\$125,391	\$131,661	\$138,244	\$145,156	\$152,414	\$160,034	\$168,036
\$195,602	\$205,382	\$215,651	\$226,434	\$237,755	\$249,643	\$262,125	\$275,232
\$2,758,066	\$2,895,969	\$3,040,768	\$3,192,806	\$3,352,447	\$3,520,069	\$3,696,072	\$3,880,876
\$514,742	\$540,479	\$567,503	\$595,878	\$625,672	\$656,956	\$689,803	\$724,293
\$221,735	\$232,822	\$244,463	\$256,686	\$269,520	\$282,996	\$297,146	\$312,003
\$237,573	\$249,452	\$261,924	\$275,021	\$288,772	\$303,210	\$318,371	\$334,289
\$110,867	\$116,411	\$122,231	\$128,343	\$134,760	\$141,498	\$148,573	\$156,002
\$316,764	\$332,602	\$349,233	\$366,694	\$385,029	\$404,280	\$424,494	\$445,719
\$237,573	\$249,452	\$261,924	\$275,021	\$288,772	\$303,210	\$318,371	\$334,289
\$316,764	\$332,602	\$349,233	\$366,694	\$385,029	\$404,280	\$424,494	\$445,719
\$1,956,019	\$2,053,820	\$2,156,511	\$2,264,337	\$2,377,553	\$2,496,431	\$2,621,253	\$2,752,315
\$4,714,085	\$4,949,789	\$5,197,279	\$5,457,143	\$5,730,000	\$6,016,500	\$6,317,325	\$6,633,191
\$3,205,020	\$3,365,271	\$3,533,535	\$3,710,212	\$3,895,722	\$4,090,508	\$4,295,034	\$4,509,786
\$356,360	\$374,178	\$392,887	\$412,531	\$433,158	\$454,815	\$477,556	\$501,434
\$79,191	\$83,151	\$87,308	\$91,674	\$96,257	\$101,070	\$106,124	\$111,430
\$2,769,470	\$2,907,943	\$3,053,340	\$3,206,007	\$3,366,308	\$3,534,623	\$3,711,354	\$3,896,922
34.97%	34.97%	34.97%	34.97%	34.97%	34.97%	34.97%	34.97%

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EXHIBIT 4

ECONOMIC SUMMARY

	Development 1987	Development 1988	Operating 1989	Operating 1990	Stabilized Yr. 1991	Operating 1992
NET AVAILABLE FOR DEBT	\$0	\$0	\$2,278,449	\$2,392,372	\$2,511,991	\$2,637,590
Less: Debt service			\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282
Cash Flow Before Incentive Fee			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Incentive Fee (10% of GOP)			\$0	\$0	\$0	\$0
Remaining Cash Flow			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Less: Lender Partic. (@50%)			\$0	\$0	\$0	\$0
Net Cash Flow to Developer			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Plus: Reserves			\$65,151	\$68,408	\$71,829	\$75,420
Less: Depreciation & Amort.	\$0	\$1,909,370	\$7,450,093	\$3,850,093	\$3,850,093	\$2,100,093
Plus: Amortization on Loan			\$58,381	\$65,971	\$74,547	\$84,238
NET TAXABLE INCOME (LOSS)			(\$9,341,394)	(\$5,616,624)	(\$5,485,009)	(\$3,596,127)
AMOUNT OF ITC						

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Operating 1993	Operating 1994	Operating 1995	Operating 1996	Operating 1997	Operating 1998	Sale 1999	
\$2,769,470	\$2,907,943	\$3,053,340	\$3,206,007	\$3,366,308	\$3,534,623	\$3,711,354	\$3,896,922
\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282	\$4,293,282
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)	(\$396,361)
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)	(\$396,361)
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)	(\$396,361)
\$79,191	\$83,151	\$87,308	\$91,674	\$96,257	\$101,070	\$106,124	\$111,430
\$2,100,093	\$2,100,093	\$1,394,093	\$1,394,093	\$1,234,723	\$1,234,723	\$1,234,723	\$9,877,780
\$95,189	\$107,563	\$121,547	\$137,348	\$155,203	\$175,379	\$198,178	\$0
(\$3,449,526)	(\$3,294,718)	(\$2,425,180)	(\$2,252,347)	(\$1,910,237)	(\$1,716,933)	(\$1,512,349)	(\$10,162,711)

EXHIBIT 5 DEPRECIATION ANALYSIS	Development 1987	Development 1988	Operating 1989	Operating 1990	Stabilized Yr. 1991	Operating 1992
18 Year Real Property/ITC						
Elevators			\$111,111	\$11,111	\$11,111	\$11,111
ProRate Share of Soft Cost			\$833	\$833	\$833	\$833
TOTAL 18 YR. ITC	\$0	\$0	\$111,944	\$11,944	\$11,944	\$11,944
18 YEAR PROPERTY						
Other- Construction			\$1,099,718	\$1,099,718	\$1,099,718	\$1,099,718
Design Services			\$16,667	\$16,667	\$16,667	\$16,667
Prof. & Development Serv			\$2,778	\$2,778	\$2,778	\$2,778
Permits & Surveys			\$10,997	\$10,997	\$10,997	\$10,997
Insurance			\$2,778	\$2,778	\$2,778	\$2,778
Develop. Contingency			\$89,841	\$89,841	\$89,841	\$89,841
TOTAL 18 YEAR	\$0	\$0	\$1,222,778	\$1,222,778	\$1,222,778	\$1,222,778
5 yr ACRS/ITC						
FF&E			\$700,000	\$700,000	\$700,000	\$700,000
Design Service			\$6,000	\$6,000	\$6,000	\$6,000
TOTAL 5 YR ITC	\$0	\$0	\$706,000	\$706,000	\$706,000	\$706,000
OTHER AMORTIZED COSTS						
Marketing/Pre-Opening(5yr)	\$1,750,000	\$1,750,000	\$1,750,000	\$1,750,000	\$1,750,000	
R.E. Tax & Interest (10yr)	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Financing Fee (10yr)	\$129,370	\$129,370	\$129,370	\$129,370	\$129,370	\$129,370
TOTAL AMORTIZED	\$1,909,370	\$1,909,370	\$1,909,370	\$1,909,370	\$1,909,370	\$159,370
EXPENSED						
Sales Tax			\$1,750,000			
Inventory			\$1,750,000			
TOTAL EXPENSED			\$3,500,000			
NOT DEPRECIABLE						
Land	\$2,258,000					
Operating Reserve	\$350,000					
TOTAL NOT DEPREC.	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL PROJECT COST	\$1,909,370	\$7,450,093	\$3,850,093	\$3,850,093	\$2,100,093	
TOTAL ITC						

Operating 1993	Operating 1994	Operating 1995	Operating 1996	Operating 1997	Operating 1998	Sale 1999	Remaining Depreciation
\$11,111	\$11,111	\$11,111	\$11,111	\$11,111	\$11,111	\$11,111	\$88,889
\$833	\$833	\$833	\$833	\$833	\$833	\$833	\$6,667
\$11,944	\$11,944	\$11,944	\$11,944	\$11,944	\$11,944	\$11,944	\$95,556
\$1,099,718	\$1,099,718	\$1,099,718	\$1,099,718	\$1,099,718	\$1,099,718	\$1,099,718	\$8,797,745
\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$133,333
\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$22,222
\$10,997	\$10,997	\$10,997	\$10,997	\$10,997	\$10,997	\$10,997	\$87,977
\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$2,778	\$22,222
\$89,841	\$89,841	\$89,841	\$89,841	\$89,841	\$89,841	\$89,841	\$718,724
\$1,222,778	\$1,222,778	\$1,222,778	\$1,222,778	\$1,222,778	\$1,222,778	\$1,222,778	\$9,782,224
\$700,000	\$700,000						
\$6,000	\$6,000						
\$706,000	\$706,000	\$0	\$0	\$0	\$0	\$0	\$0
\$30,000	\$30,000	\$30,000	\$30,000				
\$129,370	\$129,370	\$129,370	\$129,370				
\$159,370	\$159,370	\$159,370	\$159,370	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0			
\$2,100,093	\$2,100,093	\$1,394,093	\$1,394,093	\$1,234,723	\$1,234,723	\$1,234,723	\$9,877,780

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EXHIBIT 6
 LOAN AMORITIZATION SCHEDULE

	Development 1987	Development 1988 1	Operation 1989 2	Operation 1990 3	Stabilized Yr 1991 4	Operation 1992 5	Operation 1993 6	Operation 1994 7
LOAN BALANCE		\$17,117,283	\$17,058,901	\$16,992,931	\$16,918,384	\$16,834,146	\$16,738,957	\$16,631,394
AMORTIZATION			\$58,381	\$65,971	\$74,547	\$84,238	\$95,189	\$107,563
INTEREST			\$4,234,901	\$4,227,312	\$4,218,736	\$4,209,045	\$4,198,094	\$4,185,719

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Operation 1995 8	Operation 1996 9	Operation 1997 10	Operation 1998 11	Sale 1999 12	Loan Balance
\$16,509,848	\$16,372,500	\$16,217,297	\$16,041,918	\$15,843,739	\$15,619,798
\$121,547	\$137,348	\$155,203	\$175,379	\$198,178	
\$4,171,736	\$4,155,935	\$4,138,080	\$4,117,903	\$4,095,104	

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SENSITIVITY
FEASIBILITY INDICATORS USING INDUSTRIAL REVENUE BONDS (10%)
Room Rate =\$110.00

		Expected
STABILIZED YEAR CAPPED AT 15%		=====
IN ORDER TO DETERMINE BUILDING COST	\$19,380,320	\$32,342,586
DEBT COVERAGE RATIO IN STABILIZED YEAR	58.51%	110% - 125%
CASH ON COST RETURN IN STABILIZED YEAR	8.99%	15%

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EXHIBIT 8
SENSITIVITY ANALYSIS

FINANCIAL FEASIBILITY INDICATORS VARYING ROOM RATE WITH IRB FINANCING

	Stabilized Yr. Capped at 15%	Debt Coverage Ratio	Cash on Cost Return
	+\$SYC	+\$DCR	+\$COC
\$55.00	16,398,732	62.41%	7.61%
\$60.00	17,889,526	68.08%	8.30%
\$65.00	19,380,320	73.75%	8.99%
\$70.00	20,871,114	79.43%	9.68%
\$75.00	22,361,908	85.10%	10.37%
\$80.00	23,852,701	90.77%	11.06%
\$85.00	25,343,495	96.45%	11.75%
Room Rate \$90.00	26,834,289	102.12%	12.45%
\$95.00	28,325,083	107.79%	13.14%
\$100.00	29,815,877	113.47%	13.83%
\$105.00	31,306,671	119.14%	14.52%
\$110.00	32,797,465	124.81%	15.21%
\$115.00	34,288,258	130.49%	15.90%
\$120.00	35,779,052	136.16%	16.59%
\$125.00	37,269,846	141.83%	17.29%
\$130.00	38,760,640	147.51%	17.98%
80.00%	19,380,320	43.24%	6.64%
85.00%	19,380,320	42.28%	6.49%
90.00%	19,380,320	41.36%	6.35%
95.00%	19,380,320	40.48%	6.22%
100.00%	19,380,320	39.64%	6.09%

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STABILIZED YEAR CAPITALIZED AT 15% AS A FUNCTION OF ROOM RATE

	Stabilized Yr. Capitalized
	+SYC
\$55.00	16,398,732
\$60.00	17,889,526
\$55.00	16,398,732
\$65.00	19,380,320
\$75.00	22,361,908
\$85.00	25,343,495
Room Rate \$95.00	28,325,083
\$105.00	31,306,671
\$115.00	34,288,258
\$125.00	37,269,846
\$135.00	40,251,434
\$145.00	43,233,021
\$155.00	46,214,609

DEBT COVERAGE RATIO AS A FUNCTION OF INFRASTRUCTURE AND ROOM RATE

+\$DCR	% of Infrastructure						
	0.00%	10.00%	20.00%	30.00%	40.00%	50.00%	
\$55.00	57.49%	53.66%	50.31%	47.35%	44.72%	42.36%	
\$65.00	67.95%	63.42%	59.45%	55.96%	52.85%	50.07%	
\$75.00	78.40%	73.17%	68.60%	64.56%	60.98%	57.77%	
\$85.00	88.85%	82.93%	77.75%	73.17%	69.11%	65.47%	
\$95.00	99.31%	92.69%	86.89%	81.78%	77.24%	73.17%	
Room Rate \$105.00	109.76%	102.44%	96.04%	90.39%	85.37%	80.88%	
\$115.00	120.21%	112.20%	105.19%	99.00%	93.50%	88.58%	
\$125.00	130.67%	121.96%	114.33%	107.61%	101.63%	96.28%	
\$135.00	141.12%	131.71%	123.48%	116.22%	109.76%	103.98%	
\$145.00	151.57%	141.47%	132.63%	124.82%	117.89%	111.69%	
\$155.00	162.03%	151.22%	141.77%	133.43%	126.02%	119.39%	

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60.00%	70.00%	80.00%	90.00%	100.00%
40.25%	38.33%	36.59%	35.00%	33.54%
47.56%	45.30%	43.24%	41.36%	39.64%
54.88%	52.27%	49.89%	47.72%	45.73%
62.20%	59.24%	56.54%	54.08%	51.83%
69.51%	66.20%	63.20%	60.45%	57.93%
76.83%	73.17%	69.85%	66.81%	64.03%
84.15%	80.14%	76.50%	73.17%	70.12%
91.47%	87.11%	83.15%	79.54%	76.22%
98.78%	94.08%	89.80%	85.90%	82.32%
106.10%	101.05%	96.46%	92.26%	88.42%
113.42%	108.02%	103.11%	98.62%	94.52%

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COST ON COST RETURN AS A FUNCTION OF INFRASTRUCTURE COSTS AND ROOM RATE

Room Rate	+\$COC	% of Infrastructure Costs					
		0.00%	10.00%	20.00%	30.00%	40.00%	50.00%
\$55.00	8.83%	8.24%	7.73%	7.27%	6.87%	6.51%	
\$65.00	10.44%	9.74%	9.13%	8.60%	8.12%	7.69%	
\$75.00	12.04%	11.24%	10.54%	9.92%	9.37%	8.87%	
\$85.00	13.65%	12.74%	11.94%	11.24%	10.62%	10.06%	
\$95.00	15.26%	14.24%	13.35%	12.56%	11.87%	11.24%	
\$105.00	16.86%	15.74%	14.75%	13.89%	13.11%	12.42%	
\$115.00	18.47%	17.24%	16.16%	15.21%	14.36%	13.61%	
\$125.00	20.07%	18.73%	17.56%	16.53%	15.61%	14.79%	
\$135.00	21.68%	20.23%	18.97%	17.85%	16.86%	15.97%	
\$145.00	23.28%	21.73%	20.37%	19.18%	18.11%	17.16%	
\$155.00	24.89%	23.23%	21.78%	20.50%	19.36%	18.34%	

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60.00%	70.00%	80.00%	90.00%	100.00%
6.18%	5.89%	5.62%	5.38%	5.15%
7.31%	6.96%	6.64%	6.35%	6.09%
8.43%	8.03%	7.66%	7.33%	7.03%
9.55%	9.10%	8.69%	8.31%	7.96%
10.68%	10.17%	9.71%	9.29%	8.90%
11.80%	11.24%	10.73%	10.26%	9.84%
12.93%	12.31%	11.75%	11.24%	10.77%
14.05%	13.38%	12.77%	12.22%	11.71%
15.18%	14.45%	13.80%	13.20%	12.65%
16.30%	15.52%	14.82%	14.17%	13.58%
17.42%	16.59%	15.84%	15.15%	14.52%

EXHIBIT 9

SYNDICATION SIMULATION Room Rate = \$65.00

Debt Coverage Ratio 110.00%
 Maximum Debt Service \$2,283,628
 Equity Required \$15,225,304
 Loan Amount \$17,117,283

NET AVAILABLE FOR DEBT	\$0	\$0	\$2,278,449	\$2,392,372	\$2,511,991	\$2,637,590
Less: Debt service			\$2,283,628	\$2,283,628	\$2,283,628	\$2,283,628
Cash Flow Before Incentive Fee			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Preferred Return to Lender (10% of GOP)			\$0	\$0	\$0	\$0
Remaining Cash Flow			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Less: Lender Partic.(@50%)			\$0	\$0	\$0	\$0
Net Cash Flow to Developer			(\$2,014,833)	(\$1,900,910)	(\$1,781,292)	(\$1,655,692)
Plus: Reserves			\$65,151	\$68,408	\$71,829	\$75,420
Less: Depreciation & Amort.	\$0	\$1,909,370	\$7,450,093	\$3,850,093	\$3,850,093	\$2,100,093
Plus: Amortization on Loan			\$58,381	\$65,971	\$74,547	\$84,238
NET TAXABLE INCOME (LOSS)			(\$9,341,394)	(\$5,616,624)	(\$5,485,009)	(\$3,596,127)

GENERAL PARTNER RETURN

NET TAXABLE INCOME (LOSS)			\$0	\$0	\$0	\$0
TAX SAVINGS			\$4,670,697	\$2,808,312	\$2,742,505	\$1,798,064
RESIDUALS TAX						
TOTAL BENEFITS	(\$17,417,747)	1	\$4,670,697	\$2,808,312	\$2,742,505	\$1,798,064

IRR 1.31%
 Partnership 100.00%
 (PART)

\$2,769,470	\$2,907,943	\$3,053,340	\$3,206,007	\$3,366,308	\$3,534,623	\$3,711,354
\$2,283,628	\$2,283,628	\$2,283,628	\$2,283,628	\$2,283,628	\$2,283,628	\$2,283,628
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)
\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)
\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$1,523,813)	(\$1,385,339)	(\$1,239,942)	(\$1,087,275)	(\$926,975)	(\$758,659)	(\$581,928)
\$79,191	\$83,151	\$87,308	\$91,674	\$96,257	\$101,070	\$106,124
\$2,100,093	\$2,100,093	\$1,394,093	\$1,394,093	\$1,234,723	\$1,234,723	\$1,234,723
\$95,189	\$107,563	\$121,547	\$137,348	\$155,203	\$175,379	\$198,178
(\$3,449,526)	(\$3,294,718)	(\$2,425,180)	(\$2,252,347)	(\$1,910,237)	(\$1,716,933)	(\$1,512,349)

\$0	\$0	\$0	\$0	\$0	\$0	Residual
\$1,724,763	\$1,647,359	\$1,212,590	\$1,126,173	\$955,119	\$858,466	\$130,261
						\$756,174
						(\$1,936,434)
\$1,724,763	\$1,647,359	\$1,212,590	\$1,126,173	\$955,119	\$858,466	(\$1,049,998)

INTERNAL RATE OF RETURN FOR LIMITED PARTNERS AS A FUNCTION OF ROOM RATE

	+\$SYN	\$55.00	\$65.00	\$75.00	\$85.00	\$95.00
	0.00%	ERR	ERR	ERR	ERR	ERR
	10.00%	-29.17%	-34.19%	ERR	ERR	ERR
	20.00%	-22.30%	-25.40%	ERR	ERR	ERR
% of	30.00%	-17.62%	-19.86%	ERR	ERR	ERR
Project	40.00%	-13.91%	-15.58%	-22.25%	ERR	ERR
Allocated	50.00%	-10.75%	-11.98%	-15.26%	ERR	ERR
to	60.00%	-7.97%	-8.83%	-10.83%	ERR	ERR
Limited	70.00%	-5.44%	-6.00%	-7.17%	-10.01%	ERR
Partners	80.00%	-3.11%	-3.39%	-3.95%	-4.40%	-1.58%
	90.00%	-0.94%	-0.97%	-1.03%	-0.36%	3.97%
	100.00%	1.11%	1.31%	1.67%	3.09%	8.23%

\$105.00	\$115.00	\$125.00	\$135.00
ERR	ERR	ERR	ERR
ERR	ERR	-17.03%	-22.47%
ERR	ERR	-15.91%	-20.08%
ERR	ERR	-15.48%	-18.94%
ERR	15.05%	-15.24%	-18.25%
ERR	24.75%	-15.10%	-17.78%
ERR	33.00%	-15.00%	-17.45%
6.54%	40.44%	-14.93%	-17.19%
12.53%	47.31%	-14.87%	-16.99%
17.54%	53.76%	-14.83%	-16.83%
22.02%	59.87%	-14.79%	-16.69%

EQUITY REQUIRED AS A FUNCTION OF LAND COSTS AND ROOM RATE

	+\$ER	\$55.00	\$65.00	\$75.00	\$85.00	\$95.00
	\$0	\$15,600,732	\$12,967,304	\$10,333,876	\$7,700,448	\$5,067,020
	\$1,000,000	\$15,826,532	\$13,193,104	\$10,559,676	\$7,926,248	\$5,292,820
	\$2,000,000	\$16,052,332	\$13,418,904	\$10,785,476	\$8,152,048	\$5,518,620
	\$3,000,000	\$16,278,132	\$13,644,704	\$11,011,276	\$8,377,848	\$5,744,420
	\$4,000,000	\$16,503,932	\$13,870,504	\$11,237,076	\$8,603,648	\$5,970,220
Land	\$5,000,000	\$16,729,732	\$14,096,304	\$11,462,876	\$8,829,448	\$6,196,020
Acquisition	\$6,000,000	\$16,955,532	\$14,322,104	\$11,688,676	\$9,055,248	\$6,421,820
	\$7,000,000	\$17,181,332	\$14,547,904	\$11,914,476	\$9,281,048	\$6,647,620
	\$8,000,000	\$17,407,132	\$14,773,704	\$12,140,276	\$9,506,848	\$6,873,420
	\$9,000,000	\$17,632,932	\$14,999,504	\$12,366,076	\$9,732,648	\$7,099,220
	\$10,000,000	\$17,858,732	\$15,225,304	\$12,591,876	\$9,958,448	\$7,325,020

\$105.00	\$115.00	\$125.00	\$135.00
\$2,433,591	(\$199,837)	(\$2,833,265)	(\$5,466,693)
\$2,659,391	\$25,963	(\$2,607,465)	(\$5,240,893)
\$2,885,191	\$251,763	(\$2,381,665)	(\$5,015,093)
\$3,110,991	\$477,563	(\$2,155,865)	(\$4,789,293)
\$3,336,791	\$703,363	(\$1,930,065)	(\$4,563,493)
\$3,562,591	\$929,163	(\$1,704,265)	(\$4,337,693)
\$3,788,391	\$1,154,963	(\$1,478,465)	(\$4,111,893)
\$4,014,191	\$1,380,763	(\$1,252,665)	(\$3,886,093)
\$4,239,991	\$1,606,563	(\$1,026,865)	(\$3,660,293)
\$4,465,791	\$1,832,363	(\$801,065)	(\$3,434,493)
\$4,691,591	\$2,058,163	(\$575,265)	(\$3,208,693)

OFFICE EXHIBITS

THE LYNN SOUTH HARBOR OFFICE BUILDINGS PRO-FORMA DEVELOPMENT COSTS

BASIS FOR PROJECTION

REVENUES		STABILIZED YEAR	1989
Market Bldg. Rent (MBR)	\$18.00		
Growth Factors		LEASING	
Market Rents (IMR)	6.0%	Lease Term (LT)	5 yrs.
Operating (IOE)	6.0%	Lease Commission (LC)	20.0%
TAXATION		HOLDING PERIOD (HP)	10 yrs.
Ordinary Income (OIT)	50.0%		
Capital Gains (CGT)	20.0%	HURDLE RATE	
Depreciable Base (DB)	15 yrs.	Before Tax (BTHR)	20.0%
SALE		CAPITAL	
Stabilized Cap Rate (SCR)	10.0%	Equity Invest. (EQ)	\$0
Disposition Cap Rate(DCR)	10.0%	Construct. Loan (CL)	\$74,428,756
Sales Expense (SE)	3.0%	Permanent Loan (PL)	\$74,428,756
		% Funded by lender(PF)	100.0%
INVESTMENT TAX CREDIT (ITC)	20.0%	FINANCING	
NET RENTABLE AREA (NRA)	700,000 sq.ft.	Constr. Mtg. Rate(CMR)	14.0%
		Perm. Mtg. Rate (PMR)	14.0%
		interest only	
VACANCY RATE (VR)	7.0%	OPERATING EXPENSES (OE)	\$6.00 per sq.ft.
		(incl. real estate taxes)	

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CONSTRUCTION COSTS

Land Acquisition (LA)	\$10,000,000
Base Building psf (BB)	\$70.00
Const. Inflation (CI)	6.00%
Piling Cost psf (PIL)	3,200,000
Tenant Fit-Up psf (TFU)	\$12.00
Landfill Removal pcy(LR)	1,304,696
Road Const. plf (RC)	\$660,000
Premium for Construction over 10 stories psf(PCC)	\$2.00
Structured Parking (GAR)	\$32.00
Power Line Sub. (PLC)	\$5,406,333
Seawall Cost (SC)	\$2,500,000
Apport. of Costs (APP)	45.16%

Apportionment of Infrastructure
Land Acquisition Allocated by Square Feet

Office	45.16%
Hotel	22.58%
Residential	32.26%

EXHIBIT 1: PROJECT COST ESTIMATE, ITC, DEPRECIATION

ACQUISITION/DEVELOPMENT COST	YEARS	ITC ITEMS	DEPRECIATION		
			5 YEAR	10 YEAR	18 YEAR
ACQUISITION					
Purchase Price					
Land	\$4,516,000				
Legal, Title, Closing	\$100,000	18			
Origination Fee	\$55,000	10		\$5,556	
	\$4,671,000			\$5,500	
CONSTRUCTION					
Base Building	\$51,940,000				
Other Const./ Tenant Opts.	\$8,400,000				
Arch. & Engineering	\$200,000				
Piles	\$3,200,000				
Landfill Removal	\$589,201				
Road Construction	\$298,056				
Parking					
Power lines	\$2,441,500				
Seawall Cost	\$1,129,000				
	68,197,756	18			\$3,788,764
DEVELOPMENT					
Leasing & Marketing	\$500,000	5	\$100,000		
Real Estate Taxes & Ins.	\$50,000	10		\$5,000	
Development Fee	\$250,000		\$250,000		
	\$800,000				
FINANCIAL					
Constr. Period Int. (IF x CMR x .5)	\$5,210,013	10		\$521,001	
Perm. Mtg. Brokerage Fee	\$110,000	10		\$11,000	
Constr. Loan Brkrng. Fee	\$50,000	1			
	\$5,370,013				
CONTINGENCY RESERVES					
Constr. & Tenant Imprvmts.	\$100,000				
Rent-Up Deficit	\$300,000	1			
General Contingency	\$200,000				
	\$600,000				
TOTAL EST. PROJECT COST (PC)					
	\$74,428,756	\$114			
Less:					
DEPRECIABLE BASIS					
		15			\$0
AMORTIZATION YRS. 1-5 (DEP)					
			\$100,000	\$542,501	\$3,794,320

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EXHIBIT 2: NET OPERATING INCOME & PROCEEDS FROM SALE

YEAR	1987	1988	1989	1990	1991	1992	1993	1994
	0	1	2	3	4	5	6	7
ACTIVITY	Construction	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
MARKET RENTS @ (IMR)	\$20.22	\$21.44	\$22.72	\$24.09	\$25.53	\$27.07	\$28.69	\$30.41
GROSS REVENUES	\$12,600,000	\$12,600,000	\$12,600,000	\$12,600,000	\$12,600,000	\$12,600,000	\$20,082,486	\$20,082,486
LESS:								
Rent-Up Deficit	(\$300,000)							
Vacancy		(\$882,000)	(\$882,000)	(\$882,000)	(\$882,000)	(\$882,000)	(\$1,405,774)	(\$1,405,774)
Landlord Expenses @ IOE	(\$37,000)	(\$39,220)	(\$41,573)	(\$44,068)	(\$46,712)	(\$49,514)	(\$52,485)	
Leasing Commission @ LC		(2,343,600)				(\$3,735,342)		
Oper. Expenses @ (IOE) psf	(\$6.00)	(\$6.36)	(\$6.74)	(\$7.15)	(\$7.57)	(\$8.03)	(\$8.51)	
Total Oper. Expenses	(\$4,200,000)	(\$4,200,000)	(\$4,200,000)	(\$4,200,000)	(\$4,200,000)	(\$4,200,000)	(\$5,620,547)	(\$5,620,547)
NET OPERATING INCOME (NOI)	\$0	\$8,063,000	\$7,478,780	\$7,476,427	\$7,473,932	\$7,471,288	\$9,271,308	\$13,003,679
SALES PRICE @ (DCR)								
SALES EXPENSE								
SALES PROCEEDS (SP)								

1995 8 Operations	1996 9 Operations	1997 10 Operations	1998 11 Operations	1999 12 Sale
\$32.24	\$34.17	\$36.22	\$38.39	\$40.70
\$20,082,486	\$20,082,486	\$20,082,486	\$26,874,896	\$26,874,896

(\$1,405,774)	(\$1,405,774)	(\$1,405,774)	(\$1,881,243)	(\$1,881,243)
(\$55,634)	(\$58,972)	(\$62,511)	(\$66,261)	(\$70,237)
(\$9.02)	(\$9.56)	(\$10.14)	(\$10.75)	(\$11.39)
(\$5,620,547)	(\$5,620,547)	(\$5,620,547)	(\$7,521,560)	(\$7,521,560)

 \$13,000,530 \$12,997,192 \$12,993,654 \$17,405,832 \$17,401,856

174,058,317 *****
 (\$5,221,749)(\$5,220,557)

 168,836,567 168,798,003

EXHIBIT 3: BEFORE TAX CASH FLOW

YEAR	1987	1988	1989	1990	1991	1992	1993	1994	
	0	1	2	3	4	5	6	7	
ACTIVITY	Construction	Leasing	Operations	Operations	Operations	Operations	Operations	Operations	
TOTAL PROJECT COST (PC)	(\$74,428,756)								
NET OPERATING INCOME (NOI)	\$0	\$8,063,000	\$7,478,780	\$7,476,427	\$7,473,932	\$7,471,288	\$9,271,308	\$13,003,679	
FINANCE									
Construction Loan (CL)	\$74,428,756								
Perm. Debt Service (int. only @ PMR)		(\$10,420,026)	(\$10,420,026)	(\$10,420,026)	(\$10,420,026)	(\$10,420,026)	(\$10,420,026)	(\$10,420,026)	
SALES PROCEEDS									
REPAYMENT OF DEBT									
BEFORE TAX CASH FLOW	(\$0)	\$0	(\$2,357,026)	(\$2,941,246)	(\$2,943,599)	(\$2,946,094)	(\$2,948,738)	(\$1,148,718)	\$2,583,653
W/OUT PREFERRED RETURN									
NET PRESENT VALUE @ BTHR		\$6,099,319							
INTERNAL RATE OF RETURN								32.62%	

1995	1996	1997	1998	1999
8	9	10	11	12
Operations	Operations	Operations	Operation	Sale

\$13,000,530 \$12,997,192 \$12,993,654 \$17,405,832 \$17,401,856

(10,420,026)(10,420,026) (10,420,026)(10,420,026)

\$168,836,567

(\$74,428,756)

\$2,580,504 \$2,577,166 \$96,981,438

EXHIBIT 4: AFTER TAX CASH FLOW

YEAR	1987	1988	1989	1990	1991	1992	1993	1994	
	0	1	2	3	4	5	6	7	
ACTIVITY	Construction	Leasing	Operations	Operations	Operations	Operations	Operations	Operations	
BEFORE TAX CASH FLOW	(\$0)	\$0	(\$2,357,026)	(\$2,941,246)	(\$2,943,599)	(\$2,946,094)	(\$2,948,738)	(\$1,148,718)	\$2,583,653
LESS:									
CONSTR. PERIOD DEDUCTIONS									
Building	(\$0)								
Closing Costs	(\$5,556)								
Origination Fee	(\$5,500)								
Real Estate Taxes & Ins.	(\$5,000)								
Construction Interest	(\$521,001)								
Equity Placement Fee	(\$0)								
Constr. Loan Brkrg. Fee	(\$50,000)								
DEPRECIATION/AMORTIZATION									
5 Year		(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)			
10 Year		(\$542,501)	(\$542,501)	(\$542,501)	(\$542,501)	(\$542,501)	(\$542,501)	(\$542,501)	
18 Year		(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	
TAXABLE INCOME (LOSS)	(\$587,057)	(\$6,793,847)	(7,378,067)	(7,380,420)	(7,382,915)	(7,385,559)	(5,485,539)	(1,753,168)	
TAX LIABILITY @ OIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TAX SHELTER @OIT	\$293,528	\$3,396,924	\$3,689,034	\$3,690,210	\$3,691,457	\$3,692,779	\$2,742,770	\$876,584	
CAPITAL GAINS									
Sales Proceeds									
Less Book Value:									
Original Basis									
Depreciation Taken									
Taxable Gain									
CAPITAL GAINS TAX @ CGT									
INVESTMENT TAX CREDIT	\$0								
AFTER TAX CASH FLOW	\$0	\$293,528	\$1,039,898	\$747,788	\$746,611	\$745,364	\$744,042	\$1,594,051	\$3,460,237
W/OUT INVESTOR SPLIT									
NET PRESENT VALUE @ ATR		\$84,753,348							
INTERNAL RATE OF RETURN		-287.3%							
WITH INVESTOR SPLIT									

1995 8	1996 9	1997 10	1998 11	1999
Operations	Operations	Operations	Sale	
\$2,580,504	\$2,577,166	\$96,981,438	\$6,985,806	\$17,401,856

(\$542,501)	(\$542,501)	(\$526,001)	(\$526,001)
(\$3,794,320)	(\$3,794,320)	(\$3,794,320)	(\$3,794,320)
(1,756,317)	(1,759,655)	92,661,117	2,665,485
\$0	\$0	(\$46,330,559)	(\$1,332,742)
\$878,159	\$879,828	\$0	\$0
		\$168,836,567	
			\$67,997,756
			(41,737,518)
		\$26,260,239	
		\$142,576,328	
		(\$28,515,266)	

 \$3,458,663 \$3,456,994 \$68,466,173

EXHIBIT 5

FINANCIAL FEASIBILITY INDICATORS

INTER.RATE OF RET. (ATIRR)	27.94%
DEBT COVERAGE RATIO (DC)	77.38%
STABILIZED YEAR CAPITALIZED AT 12% (SYC)	67,191,667

EXHIBIT 6
 SENSITIVITY ANALYSIS

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DEBT COVERAGE RATIO AS A FUNCTION OF RENTAL RATE AND % INFRASTRUCTURE

		% of Infrastructure						
		0.00%	10.00%	20.00%	30.00%	40.00%	50.00%	60.00%
Rental Rate	+\$DC							
	\$20.00	103.27%	100.22%	97.36%	94.65%	92.08%	89.66%	87.35%
	\$22.00	118.54%	115.05%	111.76%	108.65%	105.71%	102.92%	100.28%
	\$24.00	133.82%	129.88%	126.16%	122.65%	119.33%	116.19%	113.20%
	\$26.00	149.10%	144.71%	140.56%	136.65%	132.95%	129.45%	126.13%
	\$28.00	164.38%	159.53%	154.97%	150.66%	146.58%	142.71%	139.05%
	\$30.00	179.65%	174.36%	169.37%	164.66%	160.20%	155.98%	151.97%
	\$32.00	194.93%	189.19%	183.77%	178.66%	173.82%	169.24%	164.90%
	\$34.00	210.21%	204.02%	198.18%	192.66%	187.45%	182.51%	177.82%
	\$36.00	225.49%	218.84%	212.58%	206.67%	201.07%	195.77%	190.74%
\$38.00	240.77%	233.67%	226.98%	220.67%	214.69%	209.04%	203.67%	
\$40.00	256.04%	248.50%	241.39%	234.67%	228.32%	222.30%	216.59%	

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70.00%	80.00%	90.00%	100.00%
85.17%	83.09%	81.11%	79.22%
97.77%	95.38%	93.11%	90.94%
110.37%	107.67%	105.10%	102.66%
122.97%	119.96%	117.10%	114.38%
135.57%	132.26%	129.10%	126.10%
148.17%	144.55%	141.10%	137.82%
160.77%	156.84%	153.10%	149.54%
173.37%	169.13%	165.10%	161.26%
185.97%	181.43%	177.10%	172.98%
198.57%	193.72%	189.10%	184.69%
211.17%	206.01%	201.10%	196.41%

STABILIZED YEAR CAPITALIZED AT 12% AS A FUNCTION OF RENTAL RATE AND INFRASTRUCTURE COSTS

+\$SYC	% of Infrastructure Costs							
	0.00%	10.00%	20.00%	30.00%	40.00%	50.00%	60.00%	
\$20.00	78,858,333	78,858,333	78,858,333	78,858,333	78,858,333	78,858,333	78,858,333	
\$22.00	90,525,000	90,525,000	90,525,000	90,525,000	90,525,000	90,525,000	90,525,000	
\$24.00	102,191,667	102,191,667	102,191,667	102,191,667	102,191,667	102,191,667	102,191,667	
\$26.00	113,858,333	113,858,333	113,858,333	113,858,333	113,858,333	113,858,333	113,858,333	
\$28.00	125,525,000	125,525,000	125,525,000	125,525,000	125,525,000	125,525,000	125,525,000	
\$30.00	137,191,667	137,191,667	137,191,667	137,191,667	137,191,667	137,191,667	137,191,667	
\$32.00	148,858,333	148,858,333	148,858,333	148,858,333	148,858,333	148,858,333	148,858,333	
\$34.00	160,525,000	160,525,000	160,525,000	160,525,000	160,525,000	160,525,000	160,525,000	
\$36.00	172,191,667	172,191,667	172,191,667	172,191,667	172,191,667	172,191,667	172,191,667	
\$38.00	183,858,333	183,858,333	183,858,333	183,858,333	183,858,333	183,858,333	183,858,333	

Market
Building Rent

=====

70.00%	80.00%	90.00%	100.00%
78,858,333	78,858,333	78,858,333	78,858,333
90,525,000	90,525,000	90,525,000	90,525,000
102,191,667	102,191,667	102,191,667	102,191,667
113,858,333	113,858,333	113,858,333	113,858,333
125,525,000	125,525,000	125,525,000	125,525,000
137,191,667	137,191,667	137,191,667	137,191,667
148,858,333	148,858,333	148,858,333	148,858,333
160,525,000	160,525,000	160,525,000	160,525,000
172,191,667	172,191,667	172,191,667	172,191,667
183,858,333	183,858,333	183,858,333	183,858,333

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EXHIBIT 7
 LAND WRITE DOWN SIMULATION

EQUITY REQUIRED AS A FUNCTION OF LAND COSTS AND RENT RATE

	+\$ER	\$18.00	\$19.00	\$20.00	\$21.00	\$22.00	\$23.00	\$24.00	\$25.00	\$26.00
	\$0	\$18,583,229	\$14,126,988	\$9,670,747	\$5,214,506	\$758,265	(\$3,697,975)	(\$8,154,216)	*****	
	\$1,000,000	\$19,034,829	\$14,578,588	\$10,122,347	\$5,666,106	\$1,209,865	(\$3,246,375)	(\$7,702,616)	*****	
	\$2,000,000	\$19,486,429	\$15,030,188	\$10,573,947	\$6,117,706	\$1,661,465	(\$2,794,775)	(\$7,251,016)	*****	
	\$3,000,000	\$19,938,029	\$15,481,788	\$11,025,547	\$6,569,306	\$2,113,065	(\$2,343,175)	(\$6,799,416)	*****	
	\$4,000,000	\$20,389,629	\$15,933,388	\$11,477,147	\$7,020,906	\$2,564,665	(\$1,891,575)	(\$6,347,816)	*****	
Land	\$5,000,000	\$20,841,229	\$16,384,988	\$11,928,747	\$7,472,506	\$3,016,265	(\$1,439,975)	(\$5,896,216)	*****	
Acquisition	\$6,000,000	\$21,292,829	\$16,836,588	\$12,380,347	\$7,924,106	\$3,467,865	(\$988,375)	(\$5,444,616)	(\$9,900,857)	*****
	\$7,000,000	\$21,744,429	\$17,288,188	\$12,831,947	\$8,375,706	\$3,919,465	(\$536,775)	(\$4,993,016)	(\$9,449,257)	*****
	\$8,000,000	\$22,196,029	\$17,739,788	\$13,283,547	\$8,827,306	\$4,371,065	(\$85,175)	(\$4,541,416)	(\$8,997,657)	*****
	\$9,000,000	\$22,647,629	\$18,191,388	\$13,735,147	\$9,278,906	\$4,822,665	\$366,425	(\$4,089,816)	(\$8,546,057)	*****
	\$10,000,000	\$23,099,229	\$18,642,988	\$14,186,747	\$9,730,506	\$5,274,265	\$818,025	(\$3,638,216)	(\$8,094,457)	*****

RESIDENTIAL EXHIBITS

RESIDENTIAL CONDOMINIUM FEASIBILITY
 SOUTH HARBOR SITE
 JUNE 1985

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DEFINITIONS:

Revenue:

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Condo Sale Price/sf (PSF) **\$150**
 Marine Slip price (MSP) **\$30,000**
 Gross square feet
 of condo area (GSF) **500,000**
 Number of Slips (NS) **300**
 Number of Condo Units (TU)*
 * assume 1000 gsf/unit **500**

Apportionment of Infrastructure and
 Land Acquisition, allocated by Square Feet

 Hotel **22.58%**
 Office **45.16%**
 Residential **32.26%**

Development Costs

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Total Site Development Costs
 (SDC) **\$10,571,029**

Apportionment to Site Dev. Costs
 (APP)

Base Building Cost
 per sq. ft. (HCC) **\$61**

Land Acquisition (LA) **\$10,000,000**
 Seawall Repair (SC) **\$2,500,000**
 Powerline Sub. (PS) **\$5,406,333**
 Landfill Removal (LR) **\$1,304,696**
 Road Construction (RC) **\$600,000**

Pile Construction (PC)
 per sq. ft. **\$4**

Tot. Infrastructure Costs (TIC)
 of Project **\$9,811,029**

EXHIBIT 1
DEVELOPMENT COSTS

	TOTAL PROJECT COST	AMOUNT ALLOCATED TO CONDOS	COST PER UNIT
ENTIRE PROJECT COSTS			
Land Acquisition			
Land Purchase Price	\$10,000,000	\$3,226,000	\$6,452
Legal & Accounting	\$100,000	\$32,260	\$65
TOTAL ACQUISITION	\$10,100,000	\$3,258,260	\$6,517
Site Development			
Seawall	\$2,500,000	\$806,500	\$1,613
Powerline burial	\$5,406,333	\$1,744,083	\$3,488
Landfill removal	\$1,304,696	\$420,895	\$842
Road Const.	\$600,000	\$193,560	\$387
TOTAL SITE DEV. (SDC)	\$9,811,029	\$3,165,038	\$6,330
CONDO SPECIFIC COSTS			
Soft Development Costs			
Arch. & Eng.		\$500,000	\$1,000
Marketing		\$200,000	\$400
Legal		\$100,000	\$200
TOTAL SOFT COSTS		\$800,000	\$1,600
Construction			
Basic Unit			
@ \$61/gsf		\$30,500,000	\$61,000
Pile Construction		\$2,000,000	\$4,000
TOTAL CONSTRUCTION		\$32,500,000	\$65,000

Financing		
Fees	\$794,466	\$1,589
Construction loan (int.)	\$2,780,631	\$5,561

TOTAL FINANCING	\$3,575,097	\$7,150
Amenities		
Outdoor pool	\$100,000	\$200
Tennis courts	\$100,000	\$200
Health club	\$1,000,000	\$2,000
Marina @20k/slip	\$6,000,000	\$12,000

TOTAL AMENITIES	\$7,200,000	\$14,400
TOTAL OVERHEAD (2%)	\$1,615,949	\$3,232

TOTAL COST	\$52,082,083	\$104,164

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EXHIBIT 2
PROCEEDS FROM SALE & RETURNS
BEFORE TAX

TOTAL COSTS FOR ALL CONDOS	\$46,082,083	
TOTAL COSTS PER CONDO		\$92,164
TOTAL CONDO SALES REVENUE	\$75,000,000	
TOTAL REVENUE PER CONDO		\$150,000
TOTAL COSTS FOR SLIPS	\$6,000,000	
TOTAL COST PER CONDO		\$12,000
TOTAL SLIP REVENUE	\$9,000,000	
TOTAL REVENUE PER CONDO		\$18,000
TOTAL PROFITS	\$31,917,917	
TOTAL PROFIT PER CONDO		\$63,836

RETURN ON INVESTMENT (ROI) 61.28%

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EXHIBIT 3

RETURN AFTER TAX

Total Profit	\$31,917,917
Tax Liability (@50%) (TL)	\$15,958,959

INCOME AFTER TAX	\$15,958,959

RETURN ON INVESTMENT (ATR) 30.64%