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April 17, 2015

Jonathan E. Farnham, Ph.D.
Executive Director
Philadelphia Historical Commission
Room 576, City Hall
Philadelphia, PA 19107

Re: 1524-36 South Street, Philadelphia, Pennsylvania, a.k.a. the Royal Theater

Dear Dr. Farnham,

Econsult Solutions, Inc. (ESI) has prepared this letter report summarizing the findings of our analysis as part of a financial hardship application submitted to the Philadelphia Historical Commission (the "Commission"). The application by Universal Community Homes and Dranoff Properties ("Universal") proposes the partial demolition of a building located at 1524-36 South Street, commonly known as the "Royal Theater." The building was placed on the Philadelphia Register of Historic Places in 1980. Please feel free to contact us with any questions regarding our analysis.

The remainder of this letter describes the background for our work, the types of analyses we conducted, and a summary of the findings and conclusions. This letter reflects information available to us at the time of submission. Should additional information come to light, we reserve the right to revise our analysis.

SUMMARY AND CONCLUSIONS

We have investigated seven potential reuse scenarios for the Royal, including retail, movie theater, performance venue, residential, mixed use retail/residential and mixed use retail/office.

The building is in shell condition and in every scenario, the building requires substantial investment. The building requires structural repairs, and the HVAC, electrical, plumbing, and life safety systems all require replacement. In addition, finishes need to be restored and repainted. Thus, substantial investment needs to be made to return the building to use. However, the analyzed reuse scenarios do not create enough value to justify the development expenditures. Table 1 summarizes the net development cost, compared to the value of the finished project, to calculate the net value of the project.

Based on our analysis, we conclude that there is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses.

Table 1 : Summary of Financial Hardship

Scenario:	1 Retail	2a Single Screen	2b Multi-Screen	3 Live Performance	4 Residential	5 Retail / Residential	6 Retail / Commercial
Total Cost	$11.6	$15.2	$12.7	$13.9	$12.6	$11.7	$11.2
Less Subsidy	-$2.1	-$2.4	$0.0	-$2.4	$0.0	$0.0	$0.0
Remaining Cost	$9.5	$12.7	$12.7	$11.5	$12.6	$11.7	$11.2
NOI	$0.2	$0.1	$0.4	$0.4	$0.3	$0.3	$0.3
Cap Rate	7.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%
Value of finished project	$2.8	$1.0	$4.2	$4.1	$4.5	$4.1	$4.2
Net value of project	-$6.6	-$11.8	-$8.5	-$7.4	-$8.1	-$7.6	-$7.0

HARDSHIP REQUIREMENTS

The hardship analysis must demonstrate that the existing building cannot be renovated or repurposed in a way that is economically viable for this owner or another owner. Further, according to the Historical Commission's guidelines, the financial hardship application for a property must analyze "all purposes for which it is or may be reasonably adapted."[1] These guidelines mean that the hardship analysis must identify all reasonable reuses of the property, and analyze the economic viability of each reuse scenario. Not all potential reuses are reasonable because of site or regulatory constraints. Further, the analysis concerns the property itself, and does not consider whether value from adjoining undesignated properties is sufficient to subsidize the historically designated property.

METHOD

To conduct our assessment, ESI performed the following tasks:

- Reviewed property documentation supplied by Vitetta;
- Reviewed architectural plans supplied by J. Davis Architects;
- Reviewed building condition assessment by Keast & Hood;
- Reviewed construction cost estimates prepared by Allied Construction Services
- Reviewed engineering reports on the building;
- Conducted research regarding the availability of various tax incentives applicable to redeveloping the Royal Theater;
- Inspected the interior and exterior of the building, the property, and the surrounding area to understand the context in which potential redevelopment alternatives would operate if they were pursued;
- Interviewed real estate brokers and business owners along South Street;
- Reviewed the redevelopment alternatives currently being considered and assessed the development potential of the property for other potential uses that might have

[1] Philadelphia Historical Commission's Rules and Regulations, Section 6.3, p 30

been considered for the site;

- Developed and analyzed operating and financial information for each alternative;
- Conducted independent research regarding theater and performance venue operations. Sources of data and information include Shot Tower Capital, Muvico Theaters, Rentrak, the City of Philadelphia, and all other sources specifically identified in this letter report; and
- Developed conclusions regarding the financial hardship application and whether the information submitted meets the requirements specified in the Philadelphia Historical Commission's Rules and Regulations.

As part of the financial assessment, ESI considered a number of subsidies, credits, and other incentives that may impact the feasibility and affordability of renovating the Royal site. Incentives were only included if they would more than likely be available to the project. Significant incentives considered included:

- Federal Historic Tax Credit – The Federal Historic Tax Credit is a credit against Federal income tax, calculated as 20% of qualifying redevelopment expenditures for historic places. With the Royal's current status on the National Registry of Historic Buildings, we expect that tax credit incentive will be available to the project.
- Pennsylvania State Historic Tax Credit – The Pennsylvania Historic Tax Credit is constructed in much the same way as the Federal tax credit, with similar eligibility requirements, though the per-project amount is capped at $500,000. We have assumed that the property, which is individually listed, will receive this credit.
- Philadelphia Property Tax Abatement – The Philadelphia property tax abatement is available for any renovation, including those analyzed in this document.
- New Markets Tax Credit – This tax credit is constructed to incentivize development in low-income communities by providing Federal income tax relieve to project investors. In order to be eligible for this tax, however, the project must be located in a census-tract defined 'community' that qualifies as a low-income community for New Market Tax Credit (NMTC) considerations. The theater is not located in a qualifying census track, so it is not eligible for the NMTC.

In all cases, our analysis is conducted to a reasonable degree of professional certainty. We have relied on all the documents specifically cited in the report, but also look to other documents, interviews, and other sources of information.

BACKGROUND

History

The Royal Theater was designed by Philadelphia architect, Frank E. Hahn and constructed in 1919. The theater's frontage stretches across eighty feet of South Street between 15th and 16th streets. The building's rear wall extends to Kater Street where a second set of entrances once stood. Two five-foot-wide alleys run alongside the building, one on each side. The headhouse is three stories, but the main theater building is one story with a high ceiling. The partial basement includes an electrical room and public restrooms. The lobby and ticket booth were on the main floor. The second floor was used as a projection booth and the third floor was used as a mechanical space. The lobby allowed entrance into the actual theater, a small stage with three sections of ground floor seating, allowing a total of 1,125 seats.[2] Upon its opening, the Royal Theater became the first African-American-run theater in the city and was deemed "American's Finest Colored Photoplay House."[3]

Figure 1: Royal Location Map

Source: Harman Deutsch Architects (2007)

While built for showing films, the theater regularly accommodated concerts and various other productions. Both professional events and community events were hosted at the Royal Theater.[4] The Royal closed its doors in 1970 and has been vacant ever since.

Existing Conditions

In its later operating days, the interior and exterior conditions of the Royal had suffered from years of neglect and poorly implemented repairs and alterations.[5] After the theater closed in 1970, water infiltration and vegetation growth slowly deteriorated the building. In 1993, it was reported there was extensive damage to both the exterior and interior of the building, mostly due to long-term neglect.[6] The Preservation Alliance acquired the property in 1998 and worked to improve the building by repointing the exterior masonry, reconstructing the damaged southeast corner, and removing damaged material from the interior. Before Universal Companies bought the property in August 2000, the Mural Arts Project of Philadelphia had repainted the front wall with a mural to celebrate the history of the theater.[7]

According to an analysis by Allied Construction Company, the front wall facing South Street

[2] Feasibility Study of the Royal Theatre for Universal Companies, *Vitetta* (2007)
[3] *Preservation Alliance for Greater Philadelphia* (2014)
[4] Royal Theatre, *Hidden City Philadelphia* (2011)
[5] *Feasibility Study of the Royal Theater for Universal Companies,* Vitetta, 2007
[6] *Feasibility Study of the Royal Theater for Universal Companies,* Vitetta, 2007
[7] *Feasibility Study of the Royal Theater for Universal Companies,* Vitetta, 2007

is in good condition on the ground level. With the exception of slight discoloration, the cast stone walls and iron balconies on the higher levels also appear to be in fair condition. However, the rear and side brick walls are missing mortar and are covered in invasive vegetation which has caused further damage. All of the previous entrances and windows, including the front entrances, have been filled in by plywood and concrete block. The interior of the building is decayed, and there is a sinkhole in the floor of the main level. The seats on the main level have been removed and the sloping mosaic floor has deteriorated. The finish on many of the interior walls has fallen off due to water infiltration and lack of heat. Although there are remains of a plaster ceiling on the main level, a cast iron boiler and an electrical transformer in the basement, and mosaic tile flooring in the theater, much of it is unusable. A fire on the second and third floor of the building has severely damaged those walls as well as the roof framing system.[8]

NEEDED PHYSICAL IMPROVEMENTS

The deteriorated condition of the Royal requires that there be a significant level of investment to make the building safe and habitable. According to analysis from Allied Construction Services and the assessment by Keast & Hood, this investment includes:

- The roof and roof structure are to be completely demolished and replaced
- The 80-foot roof trusses are to be removed and replaced
- The masonry piers that support the roof trusses are to be reconstructed or supplemented with steel columns.
- The top ten feet of the east, south and west masonry facades are to be demolished and reconstructed.
- The existing concrete floor will need selective demolition and the repair of a sinkhole forward of the stage area is to be filled.
- The building masonry will be raked and pointed both on the interior and exterior.
- The exterior doors and windows are to be removed and replaced; and
- The building masonry is to be cleaned

Each reuse scenario has a separate cost estimate based on the needs of that scenario. All estimates include addressing the needed physical improvements.

REUSE SCENARIOS ANALYZED

We analyzed the following uses:

1- Retail
2- Movie Theater
    a. Single-Screen Movie Theater
    b. Two-Screen Movie Theater
3- Live Performance Venue
4- Residential

[8] Allied Construction Services, 2015

5- Mixed Use Retail and Residential
6- Mixed Use Retail and Commercial

We considered additional uses, but these uses were not considered to be reasonable.

- Industrial
- Indoor Parking

We considered historic tax credits for each scenario, and analyzed the scenario with and without credits where appropriate. We present the most favorable analysis for each Scenario.

All scenarios include acquisition costs as part of development costs. Applicable acquisition costs to date are $561,410, as provided by Universal. Additional descriptions of these costs are provided below.

Table 2 : Acquisition Costs for the Royal Theater

Year	Cost Description	Cost
2000	Purchase From Preservation Alliance	$286,252
2002	Restoration Work	$72,000
2004	New Fencing	$2,000
2007	Stabilization For Cast Piping And Roof Drainage	$127,000
2009	Gutter System And Drainage	$50,658
2010	Demolish Vacant Garage	$5,000
2013	Install New Sidewalk	$7,925
2013	Side Wall Repair	$1,500
2013	Appraisal Update	$2,500
2014	Sidewall Engineering Study	$6,000
2014	Weed Control	$575
	Total	**$561,410**

Scenario 1 – Retail Store

Introduction

The Royal fronts on a part of South Street with numerous retail stores. South Street West between Broad and 18th is several blocks south of the regionally focused retail on Walnut Street West, and primarily serves neighborhood needs. Further, most retailers are locally owned and operated, with a minimal number of regional or national chains.

Configuration

The Royal is convertible to retail space. The net rentable space for the Royal would be approximately 7,800 square feet with the vestibule and 9,000 square feet without the vestibule. The ceiling is approximately 30-35 feet, which is very high for most retail users. The space could be leased to one retailer, or could be subdivided amongst two or three stores.

General Requirements

Retailers prefer corners to mid-block locations because corners are more easily accessible – from two directions instead of one. Retailers also prefer a strong street presence, with dedicated frontage, so shoppers can identify the store and enter easily. In addition, retailers require loading and storage space.

Retailers generally require their space to have level floors, sufficient ceiling height, and minimal internal obstruction. Ground floor space is more valuable than other floors, grade changes at the entrances or interior need to be minimal. The walls typically do not need special treatment and in general should not detract from the merchandise. Many large format tenants require ceiling heights of 19 feet and higher.

Royal Compared to Retail Requirements

The theater has a strong street presence, and the interior configuration is readily adaptable for retail use. The floor can be leveled, and there are no interior columns. The Royal is not on a corner. While the footprint of the building may be large enough to create more than one level, the resulting multi-floor configuration would not work for retailers, due to logistical reasons for merchandizing, and a less conducive browsing environment for consumers. In addition, the Royal is deeper than most typical retail stores, and the space in back in deep buildings is not typically very valuable to a retailer.

The Royal has a very high ceiling so if the ceiling is not closed off, heating and cooling costs would be significantly higher than a store with more conventional ceiling heights. Any increase in utility costs from normal costs would come at the expense of rents.[9] Alternatively, utility costs could be reduced to normal costs if a dropped ceiling were installed, cutting off the existing ceiling. This option would require an increase in development costs.

Types of Retailers

This part of South Street is not attractive to national retailers. The types of retail that would find the Royal site attractive are smaller, local shops like those that are already on the street. Further, these retailers would likely not want to rent the entire space, but would be interested in a subdivided space.

Attainable Rents

We identified attainable rents by talking with retail brokers and investigating both asking rents and final rents for available and recently leased properties in the nearby neighborhood.[10] Rent information for comparable space is shown in Table 3.

[9] Sophisticated retailers care about bottom line cost of occupancy, which includes rent, utilities, taxes, maintenance, and other location specific expenses. If one of these costs increases, another cost must decrease to meet the required cost of occupancy.

[10] Information on achieved rent is difficult to come by, as there is no central source for this information. Therefore, information on rents comes from a variety of sources, such as interviews with brokers or tenants, newspaper articles, and similar one by one sources.

Table 3 : Rental Information for Retail Space in South Street West

Address	Rents ($/SF)	SF
1424 South St	$24	900
1506 South St	$26	1,140
1511 South St	$30	800
1610 South St	$25	850
1618 South St	$26	800
1620 South St	$22	1,100
1622 South St	$18	1,156
1717 South St	$22	700
1733 South St	$34	700

Rents in this area vary from $18 per square foot to $34 per square foot, though all these spaces are 1,200 square feet or less, significantly smaller than the Royal. Retailers are generally willing to pay more rent per square foot for smaller spaces than they are for larger spaces, especially if the larger spaces are not configured appropriately for retail.

Information from the retail brokers indicated that NNN rent could be $30-$35 for some of the Royal space, but that on average the rent would be less than that amount because tenants would not be willing to pay as much for the space at the back of the building. A more realistic rate for the entire building is $20 to $30.

Information on comparable properties in the market indicates that rent for the Royal space would likely be $20 to $25 per square foot.

Development Costs

Converting the Royal to retail space would require rehabilitating the walls, roof and the rest of the building envelope. All the systems need to be replaced, and the interior needs to be repaired. It is estimated that rehabilitation construction costs for retail purposes would be approximately $8.4 million, which implies a total development budget of approximately $11 million.[11] The rehabilitation converts the Royal to a “vanilla” box, and includes a level floor. These costs must be recovered to justify converting the Royal to retail use. The costs do not include tenant fit-out, and do not include rehabilitation of the interior historic elements.

Fit Out

The retail space would have to be fit out for the tenant. A retail lease would typically include an allowance for tenant fit out, either as upfront cash or credits against rent. There would also likely be a period of free rent while the store was under construction. We assume this fit-out cost to be $60 per square foot, for a total of approximately $0.5 million.

[11] The construction cost is $8.4 million. We assume soft costs to be 25% of construction costs, or $2.1 million, and $0.6 million in value for the current property, for a total of $11.0 million.

Operating Costs
We assume most operating costs are passed along to the tenant because of the NNN lease. In addition to this, we assume the owner bears annual expenses of $15,000 for general administrative activities, as well as requisite maintenance activities.

Financial Analysis
Our financial analysis, summarized in Table 4, shows that the Net Present Value (at 12%) of this investment is -$4.0 million.[12] The Internal Rate of Return is not defined.[13] The value of the project, calculated as the value of the completed project (net operating income divided by a capitalization rate) less development cost (excluding subsidies), is -$6.6 million.

Table 4: Summary of Financial Analysis – Retail Space

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,366,105
Soft Costs		$2,091,526
Tenant Fit Out Costs		$540,000
Total Uses		$11,559,041
Sources		
Owner Equity	12%	$1,359,407
Loan	70%	$8,091,329
Tax Credit - Federal	14%	$1,608,305
Tax Credit - State	4%	$500,000
Total Sources		$11,559,041
Financial Summary		
Net Operating Income (first year)		$198,750
Operating cash flow (first year)		-$286,730
Net Present Value (12%)		-$4,047,664
Internal Rate of Return		Not Defined
Net value of project		-$6,611,450

Please see Appendix 1 for the detailed pro forma analysis.

[12] We also explored the feasibility of constructing this scenario without historic tax credits. Not rehabilitating to Historic Tax Credit Standards would reduce construction costs by approximately $300,000. Given the $2.4 million in anticipated tax credits received, it is more sensible to renovate to historic standards for this scenario.
[13] The IRR is not defined because there is no discount rate at which the NPV of the cash flows equals zero. This situation indicates a negative return on investment. To present the results as clearly as possible, the pro forma analyses assume that the construction would be complete within 12 months, rather than the 16-18 months it would actually take.

Conclusion:
The expense of renovating and adapting the Royal for use as a retail store would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by rents achievable for the space.

Scenario 2 – Movie Theater

Introduction
This scenario analyzes the financial results from restoring the Royal as a single screen movie theater, and also as a two screen theater, which is the maximum number of screens likely to fit in the existing structure. [14] The restoration would include the complete rehabilitation of the structure, modernization of the building systems, and fit-out of a modern movie theater. The restored single screen theater would seat approximately 400 people, and the two screen theater would seat 175 people in each theater.[15]

Movie Theater Business
In the early days of movie theaters - the era in which the Royal was built - cinemas were all single screen. Numerous technological and business model changes over the past half-century have rendered the single-screen model largely obsolete.[16] An additional change is the advent of stadium-style seating in movie theaters, which audiences prefer to standard seating. The Royal, as with other remaining single screen theaters, originally offered the older, less preferred style of seating. Our analysis assumes that the rebuilt theater would include stadium seating.

Single screen theaters are exceedingly rare in today's cinema market and most owe their survival to outside subsidies. Table 5 shows the gross ticket revenue of single screen theaters nationwide.[17]

Table 5: Gross Ticket Revenue of Single-Screen Movie Theater

Theater (Location)	Total Seats	2012 Gross Ticket Revenue
Paris (New York, NY)	581	$1,503,787
Uptown (Washington, DC)	1,364	$1,141,657
Castro (San Francisco, CA)	1,400	$926,761
Uptown (Minneapolis, MN)	900	$343,886
Cinema 21 (Portland, OR)	500	$276,608
Ken (San Diego, CA)	300	$266,774
Downtown Independent (Los Angeles, CA)	222	$63,790
Average	752	$646,180

[14] Analysis conducted by Allied Construction Services strongly suggests that no more than two screens could operate reasonable within the existing Royal shell.
[15] For clarity and ease of analysis, we assume that the developer would restore the Royal and operate the theater itself. In reality, a restored movie theater would be rented to an operator.
[16] Shot Tower Capital, *Out of Home Entertainment* (2013)
[17] Rentrack Corporation (August 2013)

Several of these theaters host premiers or other special events. Theaters in Philadelphia have lower gross ticket revenue per screen than some of the single screen theaters in other cities, but there are several multi screen theaters that have higher per screen ticket revenues than the single screen theaters in Minneapolis, Portland, or San Diego. Please see Table 6.[18]

Table 6: Gross Revenue of Philadelphia Movie Theaters

Theater	Screens	2012 Gross Ticket Revenue	Revenue per Screen
University 6	6	$3,444,265	$574,044
Main Street Theatre 6	6	$3,269,964	$544,994
Franklin Mills 14 with IMAX	14	$5,698,888	$407,063
Riverview Plaza	17	$7,296,083	$429,181
Pearl At Avenue North	7	$2,703,430	$386,204
Ritz East Twin	2	$673,494	$336,747
Ritz 5	5	$1,410,048	$282,010
Ritz At The Bourse 5	5	$801,444	$160,289
Average	7.8	$3,162,202	$408,026

Operations

Movie theaters generate revenue from ticket sales, concessions, and advertising. The revenue assumption is based on the revenue of the average revenue per screen of comparable Philadelphia movie theatres (as seen in Table 5). Our analysis assumes that each reopened Royal screen would have gross ticket revenue that is as much as the Philadelphia average.

A variety of factors limit the Royal's potential performance. Most importantly, a single-screen design or even a two screen design would limit the theater's ability to manage efficiently its film rentals, due to the terms of common film rental contracts. In effect, the Royal would be forced to hold movies beyond the point of profitability. Further, while the single screen Royal does have significant seating capacity, the fact that other theaters within the region do not sell out their theaters on a regular basis implies that the Royal will not realize most of the benefits from the greater seating capacity.

Concession and advertising revenue depend on ticket sales. Event revenue is rare and interferes with movie showings. Theaters incur expenses for film rental, concessions materials, personnel, utilities, taxes, maintenance, and administration.

Development Costs

The construction investment required to build a modern single screen theater is approximately $11.7 million, and to build a two-screen theater is approximately $9.8 million.[19] Including additional fit out costs (projector equipment, etc.) of $1.0 million, historic acquisition costs of $0.6 million and other development costs (25% of construction costs), the total expenditure to develop the Royal is $16.2 million for a single-screen theater, and $14.2

[18] Rentrack Corporation, August 2013

[19] The significant difference in cost between the single screen and two screen construction models stems from the costs associated with preserving and refurbishing historic aspects of the theater in the single screen scenario.

million for a two-screen theater. Due to necessary alterations to the building interior needed to construct the two-screen movie theater, that scenario is believed to be ineligible for Historic Tax Credit consideration.[20] Construction would require approximately 12 months.

Financial Analysis

Our financial analysis, shown in Table 7 and Table 8, shows the operational performance of a single-screen and a two-screen movie theater. Operating profits for the single-screen movie theater option would be approximately $100,000 per year. After taking debt service into account (assuming only the interest on the 6% loan is paid), the net operating income in year one would be approximately -$0.5 million. The Net Present Value (at 12%) of this investment is approximately -$8.3 million. The Internal Rate of Return is not defined.[21]

Table 7: Summary of Financial Analysis – Single-Screen Movie Theater

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$11,674,105
Soft Costs		$2,918,526
Tenant Fit Out Costs		$1,000,000
Total Uses		$16,154,041
Sources		
Owner Equity	30%	$4,116,101
Loan	70%	$9,604,235
Tax Credit - Federal		$1,933,705
Tax Credit - State		$500,000
Total Sources		$16,154,041
Financial Summary		
Net Operating Income (first year)		$95,706
Operating cash flow (first year)		-$480,548
Net Present Value (12%)		-$8,306,318
Internal Rate of Return		Not Defined
Net value of project		-$12,763,272

Operating profits for the two-screen movie theater option would be approximately $0.4 million per year. After taking debt service into account (assuming only the interest on the 6% loan is paid), the net operating income in year one would be approximately -$0.2 million. The Net Present Value (at 12%) of this investment is approximately -$5.4 million. The Internal Rate of Return is not defined.

[20] Analysis performed by Allied Construction Services.

[21] We also explored the financial feasibility of the single screen theater without the Historic Tax Credit. If the theater was not build to Historic Tax Credit standards, construction costs would be brought down by about $2 million. This would remove the $2.4 million in tax credits, however. Therefore, it is also not financially feasible to refurbish the theater without the Historic Tax Credit benefit.

Table 8: Summary of Financial Analysis – Two-Screen Movie Theater

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$9,750,000
Soft Costs		$2,437,500
Tenant Fit Out Costs		$1,500,000
Total Uses		$14,248,910
Sources		
Owner Equity	30%	$4,274,673
Loan	70%	$9,974,237
Tax Credit - Federal		$0
Tax Credit - State		$0
Total Sources		$14,248,910
Financial Summary		
Net Operating Income (first year)		$420,557
Operating cash flow (first year)		-$177,897
Net Present Value (12%)		-$5,357,792
Internal Rate of Return		Not Defined
Net value of project		-$10,043,339

Please see Appendix 2 for the detailed pro forma analysis.

Conclusion
Renovating the Royal for use as a single or two screen movie theater would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by profits made by the operation of the theater.

Scenario 3 – Live Performance Venue

Scenario 3 analyzes adapting the existing theater for use as a live entertainment venue capable of hosting stage acts. The restored theater would seat approximately 600 people for standing-room shows, and could be configured to seat 175 people for more formal performances.

Performance Venue Business
The Royal would offer a mixture of live shows from artists and companies. We assume that the performances could be plays, concerts, comedy, or similar shows.

We note that the theater business has been very difficult recently for other theaters in Center City.

- On October 24, 2014, the organization that manages the Prince Music Theater terminated the lease of its building on 13th and Chestnut. The theatre was seeking a new organization to takeover; the financial security of the Prince Music Theater is unclear at present.

- Additionally, Suzanne Roberts Theatre, located at Broad and Lombard, has been in financial trouble for some time. Its annual budget of less the $5 million in 2012 was not nearly enough to support its $11 million remaining mortgage. Fund-raising to pay for the building stopped after the initial $8 million from the state and city in 2007. As occupancy and mortgage interest has increased, the theatre has been unable to pay its mortgage payments since 2012. Though the Theatre continues to gain financial stability, TD Bank had reportedly foreclosed on the Theatre as of April 2014.

Operations
The projections for the Royal are based on information about the other theaters. Because of the relatively small stage space, lack of fly space, and limited space for dressing rooms and other preparatory areas, large-scale productions (such as Broadway musicals) would not be possible at the Royal. Our analysis is based on the production of smaller, less demanding performances.

Most theaters presenting plays and shows in the Philadelphia market operate as non-profits. It is common for the existing theaters to operate at a small gain or at a loss, even including the contributions they receive from government, private, and fundraising entities. Table 9 shows examples of financial results for a sample of Center City theaters. If contributions are excluded, then only the Society Hill Playhouse has operating revenues sufficient to cover expenses[22].

Table 9: Summary of Financials for Non-profit Theaters in Philadelphia ($000s) [23]

Theater	Operating Revenue	Contributions	Revenue	Expenditures[24]	Contributions / Revenue	Margin w/o Contributions
Arden	$3,036	$5,876	$8,912	$4,945	66%	-63%
Kimmel	$32,263	$9,228	$41,490	$39,483	22%	-22%
Lantern	$436	$594	$1,030	$830	58%	-90%
Plays & Players	$304	$79	$383	$372	21%	-22%
Prince[25]	$561	$461	$1,022	$949	45%	-69%
Society Hill	$512	$37	$548	$215	7%	58%
Suzanne Roberts	$1,563	$1,157	$2,720	$4,379	43%	-180%
Walnut Street	$13,926	$1,807	$15,732	$14,203	11%	-2%
Wilma	$1,617	$1,335	$2,951	$3,609	45%	-123%
Average	$6,024	$2,286	$8,310	$7,665	35%	-57%

Revenue weighted averages for the final three columns are weighted by revenue without contributions

Development Cost

[22] Excluding Prince Music Theater
[23] Source: IRS Form 990 for selected theaters, accessed from Foundation Center: 990finder.foundationcenter.org
[24] Mortgage and property rent payments have been removed from expenditures to make these financials more comparable to the analysis of the Royal.
[25] The Prince Music Theatre terminated its lease in October 2014. The Prince Music Theatre reported total revenues for 2012 of $3.6 million; $2.6 million is a gain on extinguishment as a restructuring of its lease and debt, and is excluded here.

The construction investment needed to prepare the Royal for hosting live entertainment is approximately $10.7 million. Including historic acquisition costs of $0.6 million and other development costs ($2.7 million, or 25% of construction costs) brings the total expenditure to develop the Royal for this use to $13.9 million. Construction would require approximately 12 months.

Financial Analysis
Our financial analysis, summarized in Table 10, shows that the Net Present Value (at 12%) of this investment is -$4.4 million. The Internal Rate of Return is not defined.[26]

Table 10: Summary of Financial Analysis – Live Performance Theater

Sources and Uses		
Uses		
Land Costs		$561,410
Construction Cost		$10,675,000
Soft Costs		$2,668,750
Total Uses		$13,905,160
Sources		
Owner Equity	30%	$3,456,423
Loan	70%	$8,064,987
Tax Credit - Federal		$1,883,750
Tax Credit - State		$500,000
Total Sources		$13,905,160
Financial Summary		
Net Operating Income (first year)		$407,485
Operating cash flow (first year)		-$76,414
Net Present Value (12%)		-$4,360,905
Internal Rate of Return		Not Defined
Net value of project		-$7,446,557

Please see Appendix 3 for the detailed pro forma analysis.

Conclusion
The expense of renovating and adapting the Royal for use as a live performance venue would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by profits made by the operation of the theater.

Scenario 4 – Residential

This scenario analyzes adapting the existing theater for residential use. The structure would allow for residential space on each of the building's three floors. The lobby would be accessible through a South Street entrance or rear entrance, while individual units could be

[26] We also explored the financial feasibility of the live performance theater without the Historic Tax Credit. If the theater was not build to Historic Tax Credit standards, construction costs would be brought down by about $2 million. This would remove the $2.4 million in tax credits, however. Therefore, it is also not financially feasible to refurbish the theater without the Historic Tax Credit benefit.

entered from additional front entrances. A second and third floor would be inserted into the structure with windows on the sides. Because the South Street façade must be maintained, the lobby would span the first and second floor in the vestibule. Taking the lobby and other common areas (stairwells, elevators, and corridors) into consideration, total leasable space would be approximately 23,000 square feet, or 22 units in total. The number of units in this scenario, and in Scenarios 5 and 6, was determined in conjunction with J. Davis Architects, Dranoff Properties, Universal, and Allied Construction based on the existing buildings height, the layout of the existing interior spaces including floor heights, and the needs of the proposed uses.

Residential Demand

There is a considerable amount of residential space in the neighborhood. The Royal would be superior to many locations because the property would be new, and would be built as rental apartments, whereas many exiting units were built as single family houses and later converted to apartments. It would house an elevator and would have modern amenities. However, there are also factors that diminish the appeal of the Royal. The building is too small to support an amenity package, and the windows of most apartments would face east or west, looking across a five foot alley at the sides of neighboring properties.

Rents vary significantly by building condition, age, and configuration, as indicated in Table 11. Based on existing comparables, we estimate annual rent per square foot of $21 for the Royal.

Table 11 - Asking Rent for Nearby Apartments

Location	Monthly Rent	SF	Monthly Rent/SF	Yearly Rent/SF
1500 South Street	$2,106	4,818	$0.44	$5.25
746 S 15th St #3	$1,350	1,689	$0.80	$9.59
708 S 20th Street	$1,695	2,090	$0.81	$9.73
2020 South Street	$1,250	1,500	$0.83	$10.00
766 S 18th Street	$2,195	2,568	$0.85	$10.26
746 S 19th Street	$1,600	1,734	$0.92	$11.07
1522 South Street	$1,872	1,874	$1.00	$11.99
901 S 16th street	$2,700	2,560	$1.05	$12.66
1604 Catherine Street	$2,100	1,692	$1.24	$14.89
762 S 16th Street	$1,500	1,140	$1.32	$15.79
2045 Christian Street	$998	700	$1.43	$17.11
2031 Fitzwater	$1,800	1,250	$1.44	$17.28
1620 Bainbridge Street	$5,500	3,800	$1.45	$17.37
1701 Christian Street	$750	500	$1.50	$18.00
1828 Fitzwater Street	$2,400	1,536	$1.56	$18.75
533 S 17th Street #2F	$1,895	1,200	$1.58	$18.95
1642 South Street	$2,250	1,400	$1.61	$19.29
729 S 16th Street	$1,050	650	$1.62	$19.38
2006 Fitzwater Street	$3,300	2,000	$1.65	$19.80
513 S 17th Street	$850	500	$1.70	$20.40
917 S 16th Street	$1,050	600	$1.75	$21.00
1909 Fitzwater	$1,800	1,000	$1.80	$21.60
1737 Webster Street	$2,095	1,120	$1.87	$22.45
1912 Bainbridge Street	$1,700	900	$1.89	$22.67
1729 Christian Street	$1,450	760	$1.91	$22.89
715 Hicks Street	$1,950	960	$2.03	$24.38
1611 Bainbridge Street	$1,850	900	$2.06	$24.67
2006 South Street	$1,850	900	$2.06	$24.67
1917 Christian Street #B	$1,250	600	$2.08	$25.00
2112 South Street #205	$1,725	790	$2.18	$26.20
705 S 20th Street	$2,195	1,000	$2.20	$26.34
1526 Webster Street	$1,995	900	$2.22	$26.60
729 S 16th Street	$725	325	$2.23	$26.77
713 S 17th Street	$1,500	600	$2.50	$30.00
1514 South Street	$1,657	653	$2.54	$30.45
2018 Christian Street	$900	340	$2.65	$31.76
1430 Lombard	$1,325	500	$2.65	$31.80
1430 Lombard	$1,500	350	$4.29	$51.43
Average	**$1,781**	**1,274**	**$1.73**	**$20.74**

Source: Loopnet, Trulia, Zillow

Operations
Using prevailing trends in local rental markets, we assume annual operating expenses, including administration, utilities and maintenance, would be 30 percent of rent revenue. We assume a 5% vacancy rate for the property.[27]

Development Cost
The construction investment needed to prepare the Royal as a residential space is approximately $9.6 million. Including historic acquisition costs of $0.6 million and other development costs ($2.4 million, or 25% of construction costs) brings the total expenditure to develop the Royal for this use to $12.6 million. Construction would require approximately 12 months.

Financial Analysis
Our financial analysis, summarized in Table 12, shows that the Net Present Value (at 12%) of this investment is -$5.4 million. The Internal Rate of Return is not defined.

Table 12: Summary of Financial Analysis – Residential Use

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$9,600,000
Soft Costs		$2,400,000
Tenant Fit Out Costs		$0
Total Uses		$12,561,410
Sources		
Owner Equity	30%	$3,768,423
Loan	70%	$8,792,987
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$12,561,410
Financial Summary		
Net Operating Income (first year)		$313,950
Operating cash flow (first year)		-$213,629
Net Present Value (12%)		-$5,418,639
Internal Rate of Return		Not Defined
Net value of project		-$8,076,410

Please see Appendix 4 for the detailed pro forma analysis.

Conclusion
The expense of renovating and adapting the Royal for use as a residential rental property would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by profits made by the operation of the theater.

[27] *2013 Survey of Operating Income and Expenses in Rental Apartment Communities*, National Apartment Association, 2013.

Scenario 5 – Mixed Use Retail/Residential

This scenario analyzes adapting Royal for both residential and retail use. The ground floor resembles the plan from Scenario 1: a large retail venue with high ceilings. The back of the ground floor includes 4 angled parking spots accessible from Kater Street, and there would be a lobby in the front of the ground floor to access the upper floor residences. A second floor would be inserted into the structure with windows on the side. This second floor would resemble the upper floors of Scenario 4. Because of the ceiling height needed for retail space, only one additional residential floor fits in the space.

Due to the lobby and common space, there would be a total of 8,000 square feet of ground floor retail. The single residential floor would contain 8,000 square feet of leasable residential space.

Rental Rates
We have assumed $25 per square foot in retail rent, in line with Scenario 1. We have assumed $21 in residential rent, in line with Scenario 4. Operating costs are in line with those scenarios as well.

Development Cost
The construction investment needed to prepare the Royal as a mixed use space is approximately $8.9 million. Including tenant fit out costs of $0.5 million, historic acquisition costs of $0.6 million and other development costs ($2.2 million or 25% of construction coasts) brings the total expenditure to develop the Royal for this use to $12.2 million. Construction would require approximately 12 months.

Financial Analysis
Our financial analysis, summarized in Table 13, shows that the Net Present Value (at 12%) of this investment is -$5.5 million. The Internal Rate of Return is not defined.

Table 13: Summary of Financial Analysis – Mixed Use Space

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,900,000
Soft Costs		$2,225,000
Tenant Fit Out Costs		$480,000
Total Uses		$12,166,410
Sources		
Owner Equity	30%	$3,649,923
Loan	70%	$8,516,487
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$12,166,410
Financial Summary		
Net Operating Income (first year)		$284,200
Operating cash flow (first year)		-$226,789
Net Present Value (12%)		-$5,456,364
Internal Rate of Return		Not Defined
Net value of project		-$8,106,410

Please see Appendix 5 for the detailed pro forma analysis.

Conclusion
The expense of renovating and adapting the Royal for use as a mixed retail and residential property would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by profits made by the operation of the theater.

Scenario 6 – Mixed Use Retail/Commercial Office

This scenario analyzes adapting Royal for both commercial office and retail use. The ground floor resembles the plan from Scenario 1: a large retail venue with high ceilings. There would be a lobby in the front of the ground floor to access the upper floor offices. A second floor would be inserted into the structure with windows on the side. This floor would be formatted as general office space, and would likely be used by a single office tenant. Because of the ceiling height needed for retail space, only one additional commercial floor fits in this space.

Due to the lobby and common space, there would be a total of 8,000 square feet of ground floor retail. The single commercial floor would contain 9,000 square feet of leasable space.

Rental Rates
This scenario is very similar to the mixed use scenario analyzed earlier. South Street west is far removed from the commercial office core and would not be able to attract rents

achievable in the office core. Further, rents for commercial office space in a B class building range from $22 to $24, which is significantly lower than residential rental rates.[28]

We have assumed $25 per square foot in retail rent, in line with Scenario 1. We have assumed $23 in commercial office rent, which is in line with local market rates.

Development Cost
The construction investment needed to prepare the Royal as a mixed use space is approximately $8.5 million. Including tenant fit out costs of $0.5 million, historic acquisition costs of $0.6 million and other development costs ($2.1 million, or 25% of construction coasts) brings the total expenditure to develop the Royal for this use to $11.7 million. Construction would require approximately 12 months.

Financial Analysis
Our financial analysis, summarized in Table 14, shows that the Net Present Value (at 12%) of this investment is -$5.0 million. The Internal Rate of Return is not defined.

Table 14: Summary of Financial Analysis – Mixed Use Space

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,500,000
Soft Costs		$2,125,000
Tenant Fit Out Costs		$480,000
Total Uses		$11,666,410
Sources		
Owner Equity	30%	$3,499,923
Loan	70%	$8,166,487
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$11,666,410
Financial Summary		
Net Operating Income (first year)		$294,700
Operating cash flow (first year)		-$195,289
Net Present Value (12%)		-$4,999,906
Internal Rate of Return		Not Defined
Net value of project		-$7,456,410

Please see Appendix 6 for the detailed pro forma analysis.

Conclusion
The expense of renovating and adapting the Royal for use as a mixed retail and residential property would face insurmountable financial challenges. The cost of renovating the theater is greater than can be justified by profits made by the operation of the theater.

[28] *SSH Real Estate (2013), Newmark Grubb Knight Frank (2014).*

Additional Uses Considered

We also considered additional uses. After a brief analysis, we determined that these were not reasonable, or that they were less financially feasible than other uses, and so were not considered in detail.

Industrial

The Royal is not zoned for industrial uses. It is not in an industrial neighborhood, and neighbors would likely strongly object to an industrial use. Further, achievable rents for an industrial use are significantly lower than for retail or residential. Therefore this was not considered further

Parking

It would be possible to reconfigure the Royal to offer indoor parking. However, it is not likely that the developers could install a curb cut on South Street, so the entrance and exit would be from Kater Street. The neighbors would likely strongly object to a parking use. Further, it is not clear that a parking garage would be permissible under the zoning code:

> The ground floor of any parking garage, other than those accessory to a single- or two-family dwelling, in the Parking Garage Ground Floor Use Control Area must be occupied by an office, retail sales, commercial services, or public, civic, and institutional use. (Philadelphia code 14-502)
>
> No parking garages, underground parking facilities, or tunnels, shall be constructed except where the Department determines that no health hazard is created by the ventilation and exhaust control systems, and issues its written approval. This provision shall not apply to garages of one- or two-family dwellings. (Philadelphia code 3-205)

Accordingly, the use as a parking garage was not considered further.

CONCLUSION

The financial analyses presented in this report do not show any reasonable use for the Royal Theater. The costs necessary to rehabilitate the space are significantly greater than the value that the rehabilitated space could generate. Table 15 below shows the development cost and the after-improvement value for each of the scenarios explored in this report. The value of the finished project in each scenario falls short of necessary development costs by at least $6.6 million dollars.

Table 15: Summary of Financial Hardship

Scenario:	1 Retail	2a Single Screen	2b Multi-Screen	3 Live Performance	4 Residential	5 Retail / Residential	6 Retail / Commercial
Land Cost	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6
Construction Cost	$8.4	$11.7	$9.8	$10.7	$9.6	$8.9	$8.5
Soft Cost	$2.6	$2.9	$2.4	$2.7	$2.4	$2.2	$2.1
Total Cost	$11.6	$15.2	$12.7	$13.9	$12.6	$11.7	$11.2
Owner Equity	$1.4	$4.1	$4.3	$3.5	$3.8	$3.6	$3.5
Loan	$8.1	$9.6	$10.0	$8.1	$8.8	$8.5	$8.2
Tax Credit - Federal	$1.6	$1.9	$0.0	$1.9	$0.0	$0.0	$0.0
Tax Credit - State	$0.5	$0.5	$0.0	$0.5	$0.0	$0.0	$0.0
Total Sources	$11.6	$16.2	$14.2	$13.9	$12.6	$12.2	$11.7
Total Cost	$11.6	$15.2	$12.7	$13.9	$12.6	$11.7	$11.2
Less Subsidy	-$2.1	-$2.4	$0.0	-$2.4	$0.0	$0.0	$0.0
Remaining Cost	$9.5	$12.7	$12.7	$11.5	$12.6	$11.7	$11.2
NOI	$0.2	$0.1	$0.4	$0.4	$0.3	$0.3	$0.3
Cap Rate	7.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%
Value of finished project	$2.8	$1.0	$4.2	$4.1	$4.5	$4.1	$4.2
Net value of project	-$6.6	-$11.8	-$8.5	-$7.4	-$8.1	-$7.6	-$7.0

We conclude that there is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses.

Appendix 1

Scenario 1 - Retail - Revenue and Cost Calculations

Revenue	2015
Square Feet	9,000
Rent per Square Foot	$25
Rent	$225,000
Other	$0
Total Revenue	$225,000

Operating Expenses	
Maintenance	$10,000
Utilities	$0
Insurance	$0
Adminstrative and Overhead	$5,000
Taxes - Use & Occupancy	$0
Taxes - Real Estate	$0
Other	$0
TOTAL	$15,000
Operating Income	$210,000

Soft cost as a percent of development cost (excluding land)	20%
Soft costs eligible for HTC	100%

Development Cost (excluding land)	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$5,950,000	$2,416,105	$8,366,105
Soft Costs	$2,091,526	$0	$2,091,526
Development Cost	$8,041,526	$2,416,105	$10,457,631
	77%		

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	$1,608,305
Multiplier	1.0
Federal Tax Credit Value for Pro Forma	$1,608,305
Pennsylvania Historic Tax Credit	$500,000

Tenant improvements	
Dollar per Square Feet	$60
Total TI Allowance	$540,000

Appendix 1

Scenario 1 - Retail - Pro Forma

Year		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
		1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Rent	-	-	225,000	229,500	234,090	238,772	243,547	248,418	253,387	258,454	263,623
Vacancy	5%		(11,250)	(11,475)	(11,705)	(11,939)	(12,177)	(12,421)	(12,669)	(12,923)	(13,181)
Other			-	-	-	-	-	-	-	-	-
TOTAL REVENUE	0	-	213,750	218,025	222,386	226,833	231,370	235,997	240,717	245,532	250,442
Operating Expenses											
Maintenance	-	-	10,000	10,200	10,404	10,612	10,824	11,041	11,262	11,487	11,717
Utilities	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Adminstrative and Overhead	-	-	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858
Taxes - Use & Occupancy	-	-	-	-	-	-	-	-	-	-	-
Taxes - Real Estate	-	-	-	-	-	-	-	-	-	-	-
Other			-	-	-	-	-	-	-	-	-
Total Operating Expenses	-		15,000	15,300	15,606	15,918	16,236	16,561	16,892	17,230	17,575
Net Operating Income			$198,750	$202,725	$206,780	$210,915	$215,133	$219,436	$223,825	$228,301	$232,867
Interest	6%		$485,480	$485,480	$485,480	$485,480	$485,480	$485,480	$485,480	$485,480	$485,480
Operating Cash Flow			-$286,730	-$282,755	-$278,700	-$274,565	-$270,346	-$266,044	-$261,655	-$257,178	-$252,612
Owners Equity		-$1,359,407									
Sale of property											$2,328,673
Repayment of loan											-$8,091,329
Cash Flow		-$1,359,407	-$286,730	-$282,755	-$278,700	-$274,565	-$270,346	-$266,044	-$261,655	-$257,178	-$6,015,268
NPV	12%	-$4,368,994									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			41%								

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,366,105
Soft Costs		$2,091,526
Tenant Fit Out Costs		$540,000
Total Uses		$11,559,041
Sources		
Owner Equity	12%	$1,359,407
Loan	70%	$8,091,329
Tax Credit - Federal	14%	$1,608,305
Tax Credit - State	4%	$500,000
Total Sources		$11,559,041

Financial Summary	
Net Operating Income (first year)	$198,750
Operating cash flow (first year)	-$286,730
Net Present Value (12%)	-$4,368,994
Internal Rate of Return	Not Defined
Value of Project	-$7,463,236

Appendix 2

Scenario 3 - Movie Theater - Revenue and Cost Calculations

REVENUE CALCULATIONS

Item	Amount
Average Philadelphia Theater Revenue per Screen	$419,737
Number of Screens	1
2012 Ticket Revenue	$419,737
2012 - 2016 Inflation	1.08
2016 Ticket Revenue	$454,337
Concessions as a percent of Ticket Revenue	50%
Concessions Revenue	$227,168
Advertising as a percent of Ticket Revenue	10%
Advertising Revenue	$45,434
Total Revenue	$726,939

EXPENSE CALCULATIONS

Item	Amount
2015 Ticket Revenue	$454,337
Film Rental as a percent of Ticket Revenue	54.5%
Film Rental Expenses	$247,613
Concessions Revenue	$227,168
Concessions COGS as a percent of Revenue	18%
Concessions COGS	$40,890
Salaries as a percent of Ticket Revenue	-
Salaries	$196,500
Other Expenses as a percent of Revenue	20%
Other Expenses	$90,867
Assessed Value	$1,402,600
Property Tax Rate	1.34%
Property Tax	$18,795
Amusement Tax Rate	5%
Amusement Tax	$22,717
Use and Occupancy Tax Rate	1.13%
Use An Occupancy Gross Tax	$15,849
Exemption	$2,000
Use and Occupancy Tax	$13,849

Soft cost as a percent of development cost (excluding land)	20%
Soft costs eligible for HTC	100%

Capital Costs	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$6,750,000	$4,924,105	$11,674,105
Soft Costs	$2,918,526	$0	$2,918,526
Total	$9,668,526	$4,924,105	$14,592,631

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	1,933,705
Multiplier	1.00
Federal Tax Credit Value for Pro Forma	1,933,705

Pennsylvania Historic Tax Credit	500,000

Appendix 2

Scenario 3 - Movie Theater - Pro Forma

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	0	1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Ticket	-	-	454,337	463,423	472,692	482,146	491,789	501,624	511,657	521,890	532,328
Concessions	-	-	227,168	231,712	236,346	241,073	245,894	250,812	255,828	260,945	266,164
Advertising	-	-	45,434	46,342	47,269	48,215	49,179	50,162	51,166	52,189	53,233
TOTAL REVENUE	-	-	726,939	741,477	756,307	771,433	786,862	802,599	818,651	835,024	851,724
Operating Expenses											
Movie Rentals	-	-	247,613	252,566	252,566	252,566	252,566	252,566	252,566	252,566	252,566
Cost of Goods (Concessions)	-	-	40,890	41,708	41,708	41,708	41,708	41,708	41,708	41,708	41,708
Personnel	-	-	196,500	200,430	200,430	200,430	200,430	200,430	200,430	200,430	200,430
Maintenance	-	-		-	-	-	-	-	-	-	-
Other Expenses	-	-	90,867	92,685	94,538	96,429	98,358	100,325	102,331	104,378	106,466
Taxes - Real Estate			18,795	19,171	19,554	19,945	20,344	20,751	21,166	21,589	22,021
Taxes - Use & Occupancy			13,849	14,126	14,409	14,697	14,991	15,291	15,597	15,909	16,227
Taxes - Amusement			22,717	23,171	23,635	24,107	24,589	25,081	25,583	26,094	26,616
Taxes - Gross Receipts											
TOTAL COSTS	-		631,232	643,857	646,840	649,883	652,986	656,152	659,381	662,674	666,034
Net Operating Income			$95,706	$97,621	$109,467	$121,550	$133,876	$146,447	$159,270	$172,350	$185,691
Interest	6%		$576,254	$576,254	$576,254	$576,254	$576,254	$576,254	$576,254	$576,254	$576,254
Operating Cash Flow			-$480,548	-$478,634	-$466,787	-$454,704	-$442,379	-$429,807	-$416,984	-$403,904	-$390,563
Owners Equity		-$4,116,101									
Sale of property											$1,856,907
Repayment of loan											-$9,604,235
Net Cash Flow		-$4,116,101	-$480,548	-$478,634	-$466,787	-$454,704	-$442,379	-$429,807	-$416,984	-$403,904	-$8,137,892
NPV	12%	-$8,306,318									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			17%								

Sources and Uses

Uses		
Land Costs		$561,410
Hard Cost		$11,674,105
Soft Costs		$2,918,526
Tenant Fit Out Costs		$1,000,000
Total Uses		$16,154,041
Sources		
Owner Equity	30%	$4,116,101
Loan	70%	$9,604,235
Tax Credit - Federal		$1,933,705
Tax Credit - State		$500,000
Total Sources		$16,154,041

Financial Summary

Net Operating Income (furst year)	$95,706
Operating cash flow (first year)	-$480,548
Net Present Value (12%)	-$8,306,318
Internal Rate of Return	Not Defined
Value of Project	-$12,763,272

Appendix 2

Scenario 3 - Movie Theater - Revenue and Cost Calculations

REVENUE CALCULATIONS

Item	Amount
Average Philadelphia Theater Revenue per Scre	$419,737
Number of Screens	2
2012 Ticket Revenue	$839,474
2012 - 2016 Inflation	1.08
2016 Ticket Revenue	$908,673
Concessions as a percent of Ticket Revenue	50%
Concessions Revenue	$454,337
Advertising as a percent of Ticket Revenue	10%
Advertising Revenue	$90,867
Total Revenue	$1,453,877

EXPENSE CALCULATIONS

Item	Amount
2015 Ticket Revenue	$908,673
Film Rental as a percent of Ticket Revenue	54.5%
Film Rental Expenses	$495,227
Concessions Revenue	$454,337
Concessions COGS as a percent of Revenue	18%
Concessions COGS	$81,781
Salaries as a percent of Ticket Revenue	-
Salaries	$196,500
Other Expenses as a percent of Revenue	20%
Other Expenses	$181,735
Assessed Value	$1,402,600
Property Tax Rate	1.34%
Property Tax	$18,795
Amusement Tax Rate	5%
Amusement Tax	$45,434
Use and Occupancy Tax Rate	1.13%
Use An Occupancy Gross Tax	$15,849
Exemption	$2,000
Use and Occupancy Tax	$13,849

Capital Costs	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$0	$9,750,000	$9,750,000
Soft Costs	$0	$2,437,500	$2,437,500
Total	$0	$12,187,500	$12,187,500

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	0
Multiplier	1.00
Federal Tax Credit Value for Pro Forma	0
Pennsylvania Historic Tax Credit	0

Appendix 2

Scenario 3 - Movie Theater - Pro Forma

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	0	1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Ticket	-	-	908,673	926,847	945,384	964,291	983,577	1,003,249	1,023,314	1,043,780	1,064,655
Concessions	-	-	454,337	463,423	472,692	482,146	491,789	501,624	511,657	521,890	532,328
Advertising	-	-	90,867	92,685	94,538	96,429	98,358	100,325	102,331	104,378	106,466
TOTAL REVENUE	-	-	1,453,877	1,482,955	1,512,614	1,542,866	1,573,723	1,605,198	1,637,302	1,670,048	1,703,449
Operating Expenses											
Movie Rentals	-	-	495,227	505,131	505,131	505,131	505,131	505,131	505,131	505,131	505,131
Cost of Goods (Concessions)	-	-	81,781	83,416	83,416	83,416	83,416	83,416	83,416	83,416	83,416
Personnel	-	-	196,500	200,430	200,430	200,430	200,430	200,430	200,430	200,430	200,430
Maintenance	-	-		-	-	-	-	-	-	-	-
Other Expenses	-	-	181,735	181,735	181,735	181,735	181,735	181,735	181,735	181,735	181,735
Taxes - Real Estate			18,795	18,795	18,795	18,795	18,795	18,795	18,795	18,795	18,795
Taxes - Use & Occupancy			13,849	13,849	13,849	13,849	13,849	13,849	13,849	13,849	13,849
Taxes - Amusement			45,434	45,434	45,434	45,434	45,434	45,434	45,434	45,434	45,434
Taxes - Gross Receipts											
TOTAL COSTS	-		1,033,320	1,048,790	1,048,790	1,048,790	1,048,790	1,048,790	1,048,790	1,048,790	1,048,790
Net Operating Income			$420,557	$434,164	$463,824	$494,076	$524,933	$556,408	$588,512	$621,258	$654,659
Interest	6%		$598,454	$598,454	$598,454	$598,454	$598,454	$598,454	$598,454	$598,454	$598,454
Operating Cash Flow			-$177,897	-$164,290	-$134,631	-$104,378	-$73,521	-$42,047	-$9,943	$22,803	$56,204
Owners Equity		-$4,274,673									
Sale of property											$6,546,586
Repayment of loan											-$9,974,237
Net Cash Flow		-$4,274,673	-$177,897	-$164,290	-$134,631	-$104,378	-$73,521	-$42,047	-$9,943	$22,803	-$3,371,447
NPV	12%	-$5,357,792									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			70%								

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$9,750,000
Soft Costs		$2,437,500
Tenant Fit Out Costs		$1,500,000
Total Uses		$14,248,910
Sources		
Owner Equity	30%	$4,274,673
Loan	70%	$9,974,237
Tax Credit - Federal		$0
Tax Credit - State		$0
Total Sources		$14,248,910

Financial Summary	
Net Operating Income (furst year)	$420,557
Operating cash flow (first year)	-$177,897
Net Present Value (12%)	-$5,357,792
Internal Rate of Return	Not Defined
Value of Project	-$10,043,339

Appendix 3

Scenario 2 - Live Performance Venue - Revenue and Cost Calculations

Royal as Producer of Show

2012 - 2015 Inflation Factor	1.06
Royal Maximum Capacity	600

Type of Show	Large	Medium	Total	Meduim Attunation
Tickets Sold	468	281	364	0.6
Ticket Price	$44.23	$35.38	$40.44	0.8
Ticket Surcharge	$3.31	$3.31	$3.31	1
Merchandise	$0.13	$0.13	$0.13	1
Other Revenue	$2.67	$2.67	$2.67	1
Artist Fee	$26.04	$20.83	$23.81	0.8
Other Expenses	$12.98	$12.98	$12.98	1
Marketing	$3.51	$3.51	$3.51	1
Total Expenses				
Number of Shows	80	100	180	

Revenue	Single Show 2012	Single Show 2012	All Large Shows 2012	All Medium Shows 2012	All Shows 2012	All Shows 2015
Ticket Revenue	$20,700	$9,936	$1,655,971	$993,583	$2,649,554	$2,808,527
Ticket Surcharge	$1,549	$929	$123,926	$92,945	$216,871	$229,883
Merchandise	$61	$37	$4,867	$3,650	$8,518	$9,029
Other Revenue	$1,250	$750	$99,965	$74,974	$174,938	$185,435
Concessions					$100,000	$106,000
Total Revenue	$23,559	$11,652	$1,884,730	$1,165,152	$3,149,881	$3,338,874
Operating Expenses						
Artist Fee	$12,187	$5,850	$974,938	$584,963	$1,559,900	$1,653,494
Other Expenses	$6,075	$3,645	$485,971	$364,478	$850,450	$901,477
Marketing	$1,643	$986	$131,414	$98,561	$229,975	$243,774
Total Expenses	$19,904	$10,480	$1,592,323	$1,048,002	$2,640,325	$2,798,744
Operating Revenue	$3,655	$1,171	$292,406	$117,150	$509,556	$540,130
Overhead and Facility Management	$0	$0				

Costs	2015 Base	Rate	2015 Costs
Insurance			$100,000
Use & Occupancy Base Tax	$1,402,600	1.13%	$15,849
U&O Adjustments			-$2,000
Taxes - Use & Occupancy			$13,849
Taxes - Real Estate	$1,402,600	1.34%	$18,795
Taxes - Amusement	$0	0.00%	$0
Total Costs			$132,644

Capital Costs	HTC Eligible	Not HTC Eligible	Amount
Construction Total	$6,750,000	$3,925,000	$10,675,000
Construction, Additional Design/Soft Costs	$2,668,750	$0	$2,668,750
Total	$9,418,750	$3,925,000	$13,343,750

Federat Historic Tax Credit Percentage	20%	NPS
Federat Historic Tax Credit	$1,883,750	
Multiplier	1.0	
Federal Tax Credit Value for Pro Forma	$1,883,750	
Pennsylvania Historic Tax Credit	500,000	PHMC

Appendix 3

Scenario 2 - Live Performance Venue - Pro Forma

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	0	1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Ticket Revenue	-	-	2,808,527	2,864,698	2,921,992	2,980,431	3,040,040	3,100,841	3,162,858	3,226,115	3,290,637
Ticket Surcharge			229,883	234,481	239,171	243,954	248,833	253,810	258,886	264,064	269,345
Merchandise	-	-	9,029	9,209	9,393	9,581	9,773	9,968	10,168	10,371	10,579
Other Revenue	-	-	185,435	189,143	192,926	196,785	200,720	204,735	208,830	213,006	217,266
Concessions			106,000	108,120	110,282	112,488	114,738	117,033	119,373	121,761	124,196
TOTAL REVENUE	-	-	3,338,874	3,405,651	3,473,764	3,543,240	3,614,105	3,686,387	3,760,114	3,835,317	3,912,023
Operating Expenses											
Artist Fee	-	-	1,653,494	1,686,564	1,720,295	1,754,701	1,789,795	1,825,591	1,862,103	1,899,345	1,937,332
Other Expenses	-	-	901,477	919,506	937,896	956,654	975,787	995,303	1,015,209	1,035,513	1,056,223
Marketing	-	-	243,774	248,649	253,622	258,695	263,869	269,146	274,529	280,019	285,620
Adminstrative and Overhead	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166
Taxes - Use & Occupancy			13,849	14,126	14,409	14,697	14,991	15,291	15,597	15,909	16,227
Taxes - Real Estate			18,795	18,795	18,795	18,795	18,795	18,795	18,795	18,795	18,795
Taxes - Amusement			-	-	-	-	-	-	-	-	-
TOTAL COSTS	-		2,931,389	2,989,641	3,049,057	3,109,663	3,171,480	3,234,534	3,298,849	3,364,450	3,431,363
Net Operating Income			$407,485	$416,011	$424,707	$433,577	$442,625	$451,853	$461,266	$470,867	$480,660
Interest	6.0%		$483,899	$483,899	$483,899	$483,899	$483,899	$483,899	$483,899	$483,899	$483,899
Operating Cash Flow			-$76,414	-$67,888	-$59,192	-$50,322	-$41,275	-$32,046	-$22,633	-$13,032	-$3,239
Owners Equity		-$3,456,423									
Sale of property											$4,806,603
Repayment of loan											-$8,064,987
Net Cash Flow		-$3,456,423	-$76,414	-$67,888	-$59,192	-$50,322	-$41,275	-$32,046	-$22,633	-$13,032	-$3,261,623
NPV	12%	-$4,360,905									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			84%								

Sources and Uses

Uses		
Land Costs		$561,410
Construction Cost		$10,675,000
Soft Costs		$2,668,750
Total Uses		$13,905,160
Sources		
Owner Equity	30%	$3,456,423
Loan	70%	$8,064,987
Tax Credit - Federal		$1,883,750
Tax Credit - State		$500,000
Total Sources		$13,905,160

Financial Summary

Net Operating Income (furst year)	$407,485
Operating cash flow (first year)	-$76,414
Net Present Value (12%)	-$4,360,905
Internal Rate of Return	Not Defined
Value of Project	-$7,446,557

Appendix 4

Scenario 4 - Residential - Revenue and Cost Calculations

All Residential

Revenue		2015
Square Feet		23,000
Rent per Square Foot		$21
Rent		$483,000
Total Revenue (excluding vacancy)		$483,000
Operating Expenses		
Administrative, Maintenance and Other	30%	$144,900
TOTAL		$144,900
Operating Income		$338,100

Capital Costs	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$0	$9,600,000	$9,600,000
Soft Costs	$0	$2,400,000	$2,400,000
Construction Total	$0	$12,000,000	$12,000,000
	0%		

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	$0
Multiplier	1.0
Federal Tax Credit Value for Pro Forma	$0
Pennsylvania Historic Tax Credit	0

Appendix 4

Scenario 1 - Retail - Pro Forma

Year		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
		1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Rent	-	-	483,000	492,660	502,513	512,563	522,815	533,271	543,936	554,815	565,911
Vacancy	5%		(24,150)	(24,633)	(25,126)	(25,628)	(26,141)	(26,664)	(27,197)	(27,741)	(28,296)
Other			-	-	-	-	-	-	-	-	-
TOTAL REVENUE	0	-	458,850	468,027	477,388	486,935	496,674	506,607	516,740	527,074	537,616
Operating Expenses											
Maintenance	-	-	144,900	147,798	150,754	153,769	156,844	159,981	163,181	166,445	169,773
Utilities	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Adminstrative and Overhead	-	-	-	-	-	-	-	-	-	-	-
Taxes - Use & Occupancy	-	-	-	-	-	-	-	-	-	-	-
Taxes - Real Estate	-	-	-	-	-	-	-	-	-	-	-
Other			-	-	-	-	-	-	-	-	-
Total Operating Expenses	-		144,900	147,798	150,754	153,769	156,844	159,981	163,181	166,445	169,773
Net Operating Income			$313,950	$320,229	$326,634	$333,166	$339,830	$346,626	$353,559	$360,630	$367,842
Interest	6%		$527,579	$527,579	$527,579	$527,579	$527,579	$527,579	$527,579	$527,579	$527,579
Operating Cash Flow			-$213,629	-$207,350	-$200,946	-$194,413	-$187,750	-$180,953	-$174,021	-$166,949	-$159,737
Owners Equity		-$3,768,423									
Sale of property											$3,678,425
Repayment of loan											-$8,792,987
Cash Flow		-$3,768,423	-$213,629	-$207,350	-$200,946	-$194,413	-$187,750	-$180,953	-$174,021	-$166,949	-$5,274,299
NPV	12%	-$5,926,219									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			60%								

Sources and Uses

Uses		
Land Costs		$561,410
Hard Cost		$9,600,000
Soft Costs		$2,400,000
Tenant Fit Out Costs		$0
Total Uses		$12,561,410
Sources		
Owner Equity	30%	$3,768,423
Loan	70%	$8,792,987
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$12,561,410

Financial Summary

Net Operating Income (furst year)	$313,950
Operating cash flow (first year)	-$213,629
Net Present Value (12%)	-$5,926,219
Internal Rate of Return	Not Defined
Value of Project	-$9,421,910

Appendix 5

Scenario 1 - Retail - Revenue and Cost Calculations

First Floor - Retail		
Revenue		2015
Square Feet		8,000
Rent per Square Foot		$25
Rent		$200,000
Other		$0
Total Revenue		$200,000
Operating Expenses		
Maintenance		$10,000
Utilities		$0
Insurance		$0
Adminstrative and Overhead		$5,000
Taxes - Use & Occupancy		$0
Taxes - Real Estate		$0
Other		$0
TOTAL		$15,000

second Floor - Residential		
Revenue		2015
Square Feet		8,000
Rent per Square Foot		$21
Rent		$168,000
Total Revenue		$168,000
Operating Expenses		
Administrative, Maintenance and Other	30%	$50,400
TOTAL		$50,400
Operating Income		$302,600

Capital Costs	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$0	$8,900,000	$8,900,000
Soft Costs	$0	$2,225,000	$2,225,000
Construction Total	$0	$11,125,000	$11,125,000
	0%		

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	$0
Multiplier	1.0
Federal Tax Credit Value for Pro Forma	$0
Pennsylvania Historic Tax Credit	0
Tenant improvements	
Dollar per Square Feet	$60
Total TI Allowance	$480,000

Appendix 5

Scenario 1 - Retail - Pro Forma

Year		2015 1	2016 2	2017 3	2018 4	2019 5	2020 6	2021 7	2022 8	2023 9	2024 10
Operating Revenue											
Rent	-	-	368,000	375,360	382,867	390,525	398,335	406,302	414,428	422,716	431,171
Vacancy	5%		(18,400)	(18,768)	(19,143)	(19,526)	(19,917)	(20,315)	(20,721)	(21,136)	(21,559)
Other			-	-	-	-	-	-	-	-	-
TOTAL REVENUE	0	-	349,600	356,592	363,724	370,998	378,418	385,987	393,706	401,581	409,612
Operating Expenses											
Maintenance	-	-	60,400	61,608	62,840	64,097	65,379	66,686	68,020	69,381	70,768
Utilities	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Adminstrative and Overhead	-	-	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858
Taxes - Use & Occupancy	-	-	-	-	-	-	-	-	-	-	-
Taxes - Real Estate	-	-	-	-	-	-	-	-	-	-	-
Other			-	-	-	-	-	-	-	-	-
Total Operating Expenses	-		65,400	66,708	68,042	69,403	70,791	72,207	73,651	75,124	76,627
Net Operating Income			$284,200	$289,884	$295,682	$301,595	$307,627	$313,780	$320,055	$326,456	$332,986
Interest	6%		$510,989	$510,989	$510,989	$510,989	$510,989	$510,989	$510,989	$510,989	$510,989
Operating Cash Flow			-$226,789	-$221,105	-$215,308	-$209,394	-$203,362	-$197,209	-$190,934	-$184,533	-$178,004
Owners Equity		-$3,649,923									
Sale of property											$3,329,856
Repayment of loan											-$8,516,487
Cash Flow		-$3,649,923	-$226,789	-$221,105	-$215,308	-$209,394	-$203,362	-$197,209	-$190,934	-$184,533	-$5,364,635
NPV	12%	-$5,915,846									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			56%								

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,900,000
Soft Costs		$2,225,000
Tenant Fit Out Costs		$480,000
Total Uses		$12,166,410
Sources		
Owner Equity	30%	$3,649,923
Loan	70%	$8,516,487
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$12,166,410

Financial Summary	
Net Operating Income (first year)	$284,200
Operating cash flow (first year)	-$226,789
Net Present Value (12%)	-$5,915,846
Internal Rate of Return	Not Defined
Value of Project	-$9,324,410

Appendix 6

Scenario 6 - Retail and COmmercial - Revenue and Cost Calculations

First Floor - Retail		
Revenue		2015
Square Feet		8,000
Rent per Square Foot		$25
Rent		$200,000
Other		$100
Total Revenue		$200,100
Operating Expenses		
Maintenance		$10,000
Utilities		$0
Insurance		$0
Adminstrative and Overhead		$5,000
Taxes - Use & Occupancy		$0
Taxes - Real Estate		$0
Other		$0
TOTAL		$15,000

Second and Third Floor - Commercial		
Revenue		2015
Square Feet		8,000
Rent per Square Foot		$23
Rent		$184,000
Total Revenue		$184,000
Operating Expenses		
Administrative, Maintenance and Other	30%	$55,200
TOTAL		$55,200

Operating Income	$313,900

Capital Costs	HTC Eligible	Not HTC Eligible	Total
Hard Costs	$0	$8,500,000	$8,500,000
Soft Costs	$0	$2,125,000	$2,125,000
Construction Total	$0	$10,625,000	$10,625,000
	0%		

Federat Historic Tax Credit Percentage	20%
Federat Historic Tax Credit	$0
Multiplier	1.0
Federal Tax Credit Value for Pro Forma	$0
Pennsylvania Historic Tax Credit	0

Tenant improvements	
Dollar per Square Feet	$60
Total TI Allowance	$480,000

Appendix 6

Scenario 1 - Retail - Pro Forma

Year		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
		1	2	3	4	5	6	7	8	9	10
Operating Revenue											
Rent	-	-	384,000	391,680	399,514	407,504	415,654	423,967	432,446	441,095	449,917
Vacancy	5%		(19,200)	(19,584)	(19,976)	(20,375)	(20,783)	(21,198)	(21,622)	(22,055)	(22,496)
Other			100	102	104	106	108	110	113	115	117
TOTAL REVENUE	0	-	364,900	372,198	379,642	387,235	394,979	402,879	410,937	419,155	427,539
Operating Expenses											
Maintenance	-	-	65,200	66,504	67,834	69,191	70,575	71,986	73,426	74,894	76,392
Utilities	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Adminstrative and Overhead	-	-	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858
Taxes - Use & Occupancy	-	-	-	-	-	-	-	-	-	-	-
Taxes - Real Estate	-	-	-	-	-	-	-	-	-	-	-
Other			-	-	-	-	-	-	-	-	-
Total Operating Expenses	-		70,200	71,604	73,036	74,497	75,987	77,506	79,057	80,638	82,250
Net Operating Income			$294,700	$300,594	$306,606	$312,738	$318,993	$325,373	$331,880	$338,518	$345,288
Interest	6%		$489,989	$489,989	$489,989	$489,989	$489,989	$489,989	$489,989	$489,989	$489,989
Operating Cash Flow			-$195,289	-$189,395	-$183,383	-$177,251	-$170,996	-$164,617	-$158,109	-$151,472	-$144,701
Owners Equity		-$3,499,923									
Sale of property											$3,452,880
Repayment of loan											-$8,166,487
Cash Flow		-$3,499,923	-$195,289	-$189,395	-$183,383	-$177,251	-$170,996	-$164,617	-$158,109	-$151,472	-$4,858,308
NPV	12%	-$5,476,364									
IRR		Not Defined									
Year 1 Debt Coverage Ratio			60%								

Sources and Uses		
Uses		
Land Costs		$561,410
Hard Cost		$8,500,000
Soft Costs		$2,125,000
Tenant Fit Out Costs		$480,000
Total Uses		$11,666,410
Sources		
Owner Equity	30%	$3,499,923
Loan	70%	$8,166,487
Tax Credit - Federal	0%	$0
Tax Credit - State	0%	$0
Total Sources		$11,666,410

Financial Summary	
Net Operating Income (furst year)	$294,700
Operating cash flow (first year)	-$195,289
Net Present Value (12%)	-$5,476,364
Internal Rate of Return	Not Defined
Value of Project	-$8,719,410