MEMORANDUM

To: Christine Maher
Office of Community Investment and Infrastructure as Successor Agency
to the Redevelopment Agency of the City and County of San Francisco

From: Jerry Keyser and Tim Kelly

Date: July 15, 2013

Prepared June 28, 2013

This memorandum has been prepared by Keyser Marston Associates, Inc. (KMA) to
respond to the “Expert Report of Eric Sussman” (“Sussman Report”) which was
prepared at the request of the Appellants and submitted on June 28, 2013. The
Sussman Report evaluated the May 8, 2013 “Financial Feasibility of 706 Mission Street:
The Mexican Museum and Residential Tower and Project Alternatives” prepared by EPS
(“EPS Report”) and peer reviewed by KMA.

Keyser Marston Associates, Inc. (KMA)

KMA qualifications and experience are briefly summarized below:

- KMA has one of the largest real estate advisory practices on the West Coast.
  Founded in San Francisco in the early 1970’s, KMA serves a diverse client base
  including nearly every major municipality in California, universities and colleges,
  ports, transit authorities as well as the private sector. The firm has offices in San
  Francisco, Los Angeles and San Diego.

- KMA has distinguished itself by a 30-year plus record of success in public private
  partnerships.

- KMA has been active in evaluating real estate projects in San Francisco for over
  30 years.
KMA has been the real estate and financial advisor to the Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco for the residential sites next to Transbay Terminal, which has received nine proposals for high rise residential towers on three sites between 2009 and 2012.

**KMA’s Assignment**

KMA’s assignment was to prepare a peer review the Feasibility Analysis prepared by EPS analysis for reasonableness. The Project Alternatives were established in the EIR and KMA was not asked to evaluate feasibility of additional alternatives.

**Millennium Partners**

- Millennium Partners is recognized as a pre-eminent national developer of high rise luxury residential towers and their architect is nationally recognized.

- The 301 Mission Millennium Tower is recognized as being a state-of-the-art luxury tower in San Francisco and original developer sales prices were reviewed by KMA as a basis for assessing the reasonableness of the pricing at 706 Mission with adjustments.

**Response to Sussman’s Comments:**

- Pricing is the most important of all the variables.

- Pricing is dramatically affected by views. A perfect example is the highly comparable Millennium Tower. As stated in the Feasibility Analysis prepared by EPS, due to existing development surrounding the 706 Mission project site and the geographic location within the city, views (and therefore view premiums) will likely vary by floor level and unit orientation, often significantly. Site lines in units above the 25th floor would begin to clear the Westin Hotel to the northwest, opening partial site lines to the Bay towards Marin. Between the 11th and 25th floors, south and east facing units would have water views to the east and southeast. Below the 11th floor, there are no water views but the south facing units would have a view of Yerba Buena Gardens.

- As a crosscheck to the reasonableness of the Feasibility Report prepared by EPS, the original developer sales price at 301 Mission Millennium Tower were provided to KMA by Millennium.
Price Per Sq. Ft. Comparison: Alternative E Reduced Shadow (27 Floors)

<table>
<thead>
<tr>
<th>Floor</th>
<th>Sussman Projection (Excludes Parking)</th>
<th>301 Mission (last year of sales) (original sales) (Includes Parking)</th>
<th>EPS Projection (Excludes Parking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-10</td>
<td>$1,650</td>
<td>$818</td>
<td>$1,150</td>
</tr>
<tr>
<td>11-25</td>
<td>$1,722</td>
<td>$939</td>
<td>$1,200</td>
</tr>
<tr>
<td>26</td>
<td>$1,829</td>
<td>$1,085</td>
<td>$1,275</td>
</tr>
<tr>
<td>27</td>
<td>$2,009</td>
<td>$1,084</td>
<td>$1,400</td>
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</tbody>
</table>

The EPS projection for Alternative E: Reduced Shadow factored in significant increases over the 301 Mission Millennium Tower (where the pricing also includes parking). As a point of reference, the Case Shiller Condominium pricing index has increased to April 2013 between approximately 20% (from Jan. 2009 to April 2013) to 40% (from Feb. 2012 to April 2013) depending on the timeframe used. The range reflects the effect of the recession and the recovery on pricing.

- Sussman’s pricing methodology is flawed based on the 301 Mission Millennium Tower experience.

1. The “comparable condominium sale prices” includes re-sales instead of being limited to original developer sales, the methodology appears to ignore the pricing history of 301 Mission, and Sussman does not recognize the limited number of units with premium water views in a 27 floor tower. As a result, Sussman’s methodology projects an unachievable average sales price of $3.47 million and an overall residential sales projection for 27 floors that is higher than the projection for the 43 Floor Modified Proposal, despite having 16 fewer floors with premium water oriented views.

<table>
<thead>
<tr>
<th>Sales</th>
<th>Sussman 27 Floors</th>
<th>EPS 43 Floors</th>
<th>EPS 27 Floors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduced Shadow</td>
<td>Modified Proposal</td>
<td>Reduced Shadow</td>
</tr>
<tr>
<td>Residential</td>
<td>$511,120,930</td>
<td>$510,982,960</td>
<td>$285,193,602</td>
</tr>
<tr>
<td>Per Unit</td>
<td>$3,477,013</td>
<td>$2,689,384</td>
<td>$1,533,299</td>
</tr>
<tr>
<td>Per Sq. Ft.</td>
<td>$1,695</td>
<td>$1,250</td>
<td>$1,179</td>
</tr>
</tbody>
</table>

2. In summary, Sussman’s pricing projection is not supported by 301 Mission Millennium Tower experience even after appropriate adjustments for time.
a. The first 27 floors in the 301 Mission average original developer sales price was $1.23 million from Spring 2012 through Winter 2013 and Sussman's average sales price for a 27 floor tower is $3.47 million per unit, or over 2.5 times higher.

b. Sussman's projected sales fails to account for the limited views on the lower floors with pricing commencing at over $3 M on the third floor. At 301 Mission, original developer sales did not reach $3 million until well above the 27th floor.

Feasibility of 27 Floor Alternative

- The 27 Floor Alternative maintains the Community Benefits Package as does all the alternatives:
  1. Millennium’s obligation to construct the core and shell of the Mexican Museum and contribute funds to an operating endowment would remain unchanged.
  2. All of the other public benefits remain.
  3. These costs have less of an impact on the development economics with more floors and more of an impact with fewer floors.

- In conclusion, starting with the 301 Mission Millennium Tower original developer sales prices and after factoring an adjustment for the Case Shiller Condominium Index increase, the Reduced Shadow Alternative for 706 Mission with 27 floors is not feasible.