

Mike Wenzel  
Price Waterhouse  
Company  
(415) 957-3427

PRO 95-25 F

RECEIVED

JAN 27 1997

CITY CLERK'S OFFICE  
SPOKANE, WA

City of Spokane

# River Park Square Redevelopment Analysis

Parking Garage Analysis

January 27, 1996

PRO 95-25

theater revenues, provide for net operating income sufficient to meet debt coverage on the bonds, base ground rent and operating expenses, with minimal participating ground rent.

- As stated earlier, there has been no appraisal to determine the market value of the land being leased to the Foundation. Therefore, the current assumption of \$59.84 per square foot or \$6.7 million may not be a valid assumption.

- The Developer has indicated that the increase in base ground rent and the participation feature were designed to compensate the Developer for what was termed "Unrealized Equity" - or the difference between the appraised investment value of the RPS Garage and the negotiated sale price of \$26.0 million. The Developer has indicated that the additional income serves as a return on this "Unrealized Equity". It is important to note that the excess of investment value over the market value of the improvements is created solely by the favorable bond financing rate resulting from the City's credit enhancement (pledging of parking meter revenues) and is not reflective of the contributory value of the land. Based on this argument, an even lower bond rate, which would increase the investment value of the improvements would provide additional "Unrealized Equity" to the Developer.

- The current terms of the ground lease have changed since the completion of the appraisals by Auble & Associates and Barrett. As stated earlier, the investment value of the improvements to the Foundation, change as the terms of the ground lease changes.

- The current version of the agreement calls for an additional annual payment Preferential Return of \$45,000 to be paid to the Developer before remaining cash flows are split 50/50. If there are not sufficient funds to pay this Preferential Return, the unpaid amount accrues until payments can be made. This recent adjustment was made to the lease to account for certain administrative fees incurred by the City in connection with the contemplated financing.

ii) *Ground Lease between City of Spokane and the RPS*  
(Current version received by C&L on 1/16/97)

- Term - Five year term with four options to renew for an additional five years each.
- Rent - Based on fair market value of Premises. Rental rate rises by CPI each year.
- Reversion: - City may sell their interest to a party which will assume the ground lease. At the end of 25 years, or sooner lessor must purchase the property for fair market value.