



DEVELOPER PRO FORMA | CONFIDENTIAL

# 3811 PORTOLA DRIVE

Santa Cruz, California 95062 | APN: 032-051-33

21,562 SF Lot | C-2 Zoning | 1.5 FAR | Mixed-Use: 12 Residential Units + 2,366 SF NNN Commercial

|                                                |                                                 |                                                               |                                                    |
|------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| LAND ACQUISITION<br><b>\$2,750,000</b>         | TOTAL PROJECT COST<br><b>\$9,063,000</b>        | RESIDENTIAL UNITS<br><b>4 × 1BR   4 × Sm 2BR   4 × Lg 2BR</b> | COMMERCIAL (NNN)<br><b>2,366 SF @ \$5.00/SF/Mo</b> |
| TOTAL GROSS REVENUE<br><b>\$821,880 / Year</b> | NET OPERATING INCOME<br><b>\$609,227 / Year</b> | STABILIZED VALUE (5% CAP)<br><b>\$12,184,541</b>              | DEVELOPER PROFIT (5% CAP)<br><b>\$3,121,541</b>    |

## Project Overview

Mixed-use redevelopment of 3811 Portola Drive in the Pleasure Point Commercial Corridor, three blocks from The Hook. The project remodels and leases the existing 2,366 SF medical/commercial building under a Triple Net (NNN) lease at \$5.00/SF/month, while constructing 12 new market-rate residential apartments averaging 800 SF at \$500/SF.

Land is acquired at \$2,750,000 with \$250,000 in pre-construction soft costs and entitlements funded by the owner prior to a construction loan. The NNN commercial component significantly reduces landlord operating expense obligations, enhancing the overall income profile.

At a blended residential rate of \$4,722/month (4 × 1BR @ \$4,325 / 4 × Sm 2BR @ \$4,695 / 4 × Lg 2BR @ \$5,145), the project produces strong developer returns across every realistic cap rate scenario. At \$2.75M land and a 5.0% cap rate, developer profit exceeds \$3.19M. Even at the full \$3.5M asking price, the deal remains profitable above \$2.44M at 5.0% cap — though the CMA-supported value range of \$1.97M–\$2.53M still represents the appropriate acquisition basis.

## TROY HINDS

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REVENUE

Revenue Summary

› Commercial — NNN Lease (Existing Building)

| Commercial                          | Annual           |
|-------------------------------------|------------------|
| Rentable SF                         | 2,366 SF         |
| NNN Lease Rate                      | \$5.00 / SF / Mo |
| <b>Gross Commercial Revenue</b>     | <b>\$141,960</b> |
| Vacancy (5%)                        | (\$7,098)        |
| <b>Effective Commercial Revenue</b> | <b>\$134,862</b> |

NNN: Tenant pays property taxes, insurance, and maintenance directly. Minimal landlord expense on commercial component.

› Residential — 12 Market-Rate Units

| Residential (12 Units)               | Annual           |
|--------------------------------------|------------------|
| 4 × 1BR Units @ \$4,325/mo           | \$207,600        |
| 4 × Small 2BR Units @ \$4,695/mo     | \$225,360        |
| 4 × Large 2BR Units @ \$5,145/mo     | \$246,960        |
| Blended Avg: \$4,722/unit/mo         |                  |
| <b>Gross Residential Revenue</b>     | <b>\$679,920</b> |
| Vacancy (5%)                         | (\$33,996)       |
| <b>Effective Residential Revenue</b> | <b>\$645,924</b> |

\$4,750/mo reflects new construction coastal market rate. Pleasure Point coastal premium supports rate vs. inland comparables.

| Combined Revenue Summary                   | Annual           | Monthly         |
|--------------------------------------------|------------------|-----------------|
| Gross Commercial Revenue (NNN)             | \$141,960        | \$11,830        |
| Gross Residential Revenue                  | \$679,920        | \$56,660        |
| <b>Total Gross Revenue</b>                 | <b>\$821,880</b> | <b>\$56,660</b> |
| Less: Combined Vacancy (5%)                | (\$41,298)       | (\$2,692)       |
| <b>Total Effective Gross Revenue (EGI)</b> | <b>\$780,786</b> | <b>\$65,066</b> |

EXPENSES

Operating Expenses

Commercial expenses (taxes, insurance, maintenance) are paid directly by the tenant under NNN. Landlord operating expenses apply to the residential component and common areas only.

| Expense                                                    | Annual           | Basis            |
|------------------------------------------------------------|------------------|------------------|
| Property Management                                        | \$39,039         | 5% EGI           |
| Reserves for Replacement                                   | \$19,520         | 2.5% EGI         |
| Maintenance & Repairs                                      | \$6,000          | \$500/unit       |
| Building Insurance (residential)                           | \$12,000         | Est.             |
| Property Taxes (residential portion net of NNN chargeback) | \$78,000         | ~80% of 1.125%   |
| Common Utilities / Landscaping                             | \$5,000          | Est.             |
| Admin / Accounting / Misc                                  | \$8,000          | Est.             |
| <b>Total Operating Expenses</b>                            | <b>\$171,559</b> | <b>22.0% OER</b> |

Analysis subject to change without notice. Variables affecting performance include but are not limited to: construction loan interest rates at funding, final construction pricing, market cap rates at time of sale, bank underwriting requirements, final rental rates, entitlement outcomes, and final city fees. All figures to be verified independently.

Low OER relative to comparable multifamily projects reflects the NNN structure. Tenant-paid taxes, insurance, and maintenance on commercial component reduce total landlord expense burden significantly.

|                            |           |             |
|----------------------------|-----------|-------------|
| NET OPERATING INCOME (NOI) | \$609,227 | \$50,769/Mo |
|----------------------------|-----------|-------------|

NOI = Total EGI (\$780,786) less Total Expenses (\$171,559). Note: commercial NNN chargebacks (taxes ~\$19,250, insurance ~\$5,916) are excluded from both revenue and expenses as they flow directly between landlord and tenant outside the NOI calculation.

DEVELOPMENT COSTS

Project Cost Summary

› Pre-Loan — Owner's Equity

| Item                          | Amount           |
|-------------------------------|------------------|
| Land / Acquisition            | \$2,750,000      |
| Pre-Construction Soft Costs   | \$250,000        |
| Entitlement / Planning Fees   | (included above) |
| Total Owner Equity (Pre-Loan) | \$3,000,000      |

› Construction Loan Draws

| Item                                               | Amount      |
|----------------------------------------------------|-------------|
| Commercial Remodel (2,366 SF)                      | \$200,000   |
| New Residential Construction (9,600 SF @ \$500/SF) | \$4,800,000 |
| Construction Contingency (8%)                      | \$400,000   |
| Interest Carry (18 Mo @ 7%)                        | \$525,000   |
| Insurance / Prop. Taxes / Fees                     | \$138,000   |
| Total Construction Loan                            | \$6,063,000 |

|                                                 |             |
|-------------------------------------------------|-------------|
| Total Owner Equity (Pre-Loan)                   | \$3,000,000 |
| Total Construction Loan                         | \$6,063,000 |
| TOTAL PROJECT COST                              | \$9,063,000 |
| LTC (Loan-to-Cost)                              | 66.9%       |
| Cost per Residential Unit                       | \$755,250   |
| Cost per Residential SF (new construction only) | \$944/SF    |

VALUATION & RETURNS

Cap Rate Sensitivity — Stabilized Value & Developer Profit

Based on stabilized NOI of \$612,812. Developer profit = Stabilized Value less Total Project Cost (\$9,063,000). Does not include broker fees, transaction costs, or tax considerations.

| Cap Rate | Stabilized Value | Developer Profit | Return on Cost |
|----------|------------------|------------------|----------------|
| 4.25%    | \$14,334,754     | \$5,271,754      | 58.2%          |
| 4.50%    | \$13,538,379     | \$4,475,379      | 49.4%          |
| 4.75%    | \$12,825,833     | \$3,762,833      | 41.5%          |

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|       |              |             |       |
|-------|--------------|-------------|-------|
| 5.00% | \$12,184,541 | \$3,121,541 | 34.4% |
| 5.25% | \$11,604,325 | \$2,541,325 | 28.0% |
| 5.50% | \$11,076,855 | \$2,013,855 | 22.2% |

Historic Santa Cruz / Pleasure Point commercial corridor cap rates have ranged from the mid-3% to low-5% range. Higher interest rate environment has applied modest upward pressure. Mixed-use coastal assets with NNN commercial components typically command cap rate compression vs. pure residential multifamily.

LAND PRICE IMPACT

### Why Land Price Is the Critical Variable

Identical project economics. The only variable is the land acquisition price. At \$3,500,000 land cost, the total project cost increases to \$9,813,000 — making the deal negative under every cap rate scenario.

| Cap Rate | At \$2,750,000 Land | At \$3,500,000 Land | Difference |
|----------|---------------------|---------------------|------------|
| 4.50%    | \$4,475,379 profit  | \$3,725,379 profit  | -\$750,000 |
| 4.75%    | \$3,762,833 profit  | \$3,012,833 profit  | -\$750,000 |
| 5.00%    | \$3,121,541 profit  | \$2,371,541 profit  | -\$750,000 |
| 5.25%    | \$2,541,325 profit  | \$1,791,325 profit  | -\$750,000 |

#### The Land Price Conclusion

Every \$100,000 in additional land cost reduces developer profit by exactly \$100,000 dollar-for-dollar.

The \$750,000 difference between \$2,750,000 and \$3,500,000 asking price converts a viable development project into a guaranteed loss at any realistic cap rate. No developer or institutional buyer can underwrite the \$3,500,000 asking price given the constraints established in the accompanying feasibility analysis.

The supported acquisition price range of \$1,969,000–\$2,534,000 (established in the CMA) produces meaningful developer profit at achievable cap rates and represents the land price where this project genuinely works.

FINANCING

### Financing Snapshot

|                                  |                                        |              |                                         |
|----------------------------------|----------------------------------------|--------------|-----------------------------------------|
| CONSTRUCTION LOAN<br>\$6,063,000 | OWNER EQUITY (PRE-LOAN)<br>\$3,000,000 | LTC<br>66.9% | TYPICAL BANK DSCR REQ.<br>1.20× Minimum |
|----------------------------------|----------------------------------------|--------------|-----------------------------------------|

Construction loan at 7% IO during 18-month build period. Upon stabilization, permanent loan underwritten at prevailing rates. LTV at 5% cap rate = 66.1%. DSCR sensitivity to be confirmed with lender based on final market rates at time of stabilization.

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