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230 Peachtree Street, N.E.
Atlanta, Georgia 30303
Area Code 404/524-6441

November 13, 1968

Mr. C. Bron Cleveland
Eric Hill Associates
75 Eighth Street, N.E.
Atlanta, Georgia 30309

Re: Retail Development:
Model Neighborhood, Inc.

Dear Bron:

As requested, we have undertaken an analysis of the potential for neighborhood retail development on the property now under option to Model Neighborhood, Inc. The two parcels are B-10b and B-14 within the Rawson-Washington Urban Renewal Project Area. The purpose of our analysis was to arrive at the indicated value of the property, considering the probable scale and character of development.

The scale and character of development is determined by:

1. The objectives of Model Neighborhood, Inc.

2. The market available to support commercial development.

3. The limitations imposed by the size, configuration and accessibility of the property itself, as well as the necessity of maintaining an adequate ratio between building area and parking area, and

4. The practical considerations of maintaining a reasonable relationship between capital investment requirements and anticipated returns.

It is our understanding that Model Neighborhood, Inc. has as its primary objective the provision of retail trade and service facilities to serve the neighborhood residents. Other considerations are making available employment opportunities as well as on-the-job training in small business operation for area residents.

Because the intent is to develop neighborhood rather than highway-type or traffic-oriented retail establishments (both are possible at the locations under study) it is our opinion (and the opinion of a qualified commercial real estate leasing agent) that the property would not be used to its highest and best use. In this case, "highest and best use" is defined as those uses that would generate the highest rents, more cash flow, and therefore justify a higher purchase price. We must accept as a given the objectives of Model Neighborhood, Inc.; these take precedent over cash flow considerations and, thus, we begin our analysis with the knowledge that the proposed uses will not yield the greatest potential return.

In November, 1967, we undertook a preliminary analysis of market support. That analysis was given to representatives of Model Neighborhood, Inc. in summary table form. The factors considered were population, income and shoppers-goods and convenience-goods expenditures in 1967 and projected to 1980 on the basis of A.A.T.S. data compiled by A.R.M.P.C. In our judgment, market support is not a consideration since, by any reasonable test, the property cannot possibly be developed (considering its land area) with enough floor space to meet available market demand. Suffice it to say that the primary market alone (south of I-20, west of South Freeway, north of A.&W.P. R.R. and east of C. of G. R.R.) will support at least 60,000 square feet of additional shoppers-goods and convenience-goods floor area exclusive of service operations. Inflow from the secondary market would be substantial but has not been considered. Moreover, that space (60,000 square feet) can be supported by attracting only 10 percent of local resident shoppers-goods expenditures and 40 percent of convenience-goods expenditures. In summary, market support is far in excess of the practical physical development potential of the property under study.

In addition to the objectives of the sponsoring organization, we set forth one other development assumption which had a marked effect on our approach to the successful utilization of the property. There are two properties under option: the smaller parcel east of McDaniel Street contains just under 1.5 acres; the larger parcel west of McDaniel Street contains slightly more than 2.5 acres -- a total of 4 acres. Under no circumstances should consideration be given to providing a pedestrial connection between the parcels by bridging McDaniel Street. The reasons for this statement will become abundantly clear later in this report letter, but for now it should be understood that the cost of bridging cannot possibly be justified by the anticipated cash flow regardless of how desirable such a connection might seem from the standpoint of functional relationships. Moreover, we believe that by placing uses on each parcel which have fundamentally different activities and traffic generating and servicing characteristics, the need for a physical connection (exclusively for pedestrians) can be reduced considerably.

Proposed Uses

In the development of the suggested retail and service complement and in estimating rents we have used the services of one of Atlanta's outstanding commercial leasing agents. This gentleman prefers to donate his talents anonymously because we both understand that other real estate people are acting in an advisory capacity on this project.

We propose that Parcel B-14 (1.486 acres) be developed as follows:

	Land or Building Area (Square Feet)
Service station	25,000
Theater (400 seats)	5,800
Service shops	4,200
Parking (75 spaces)	29,700
Total	64,700

The service station should locate on the Georgia Avenue frontage; the theater and service shops on the remaining land area. These service shops will generate quick turnover patronage and traffic -- much of the traffic may flow past drive-in windows if designs can incorporate this possibility. The theater's patronage will be primarily in the evening and can utilize parking not needed by service shops at that time. (Incidentally, we checked the mini-theater people now operating here in Atlanta and they expressed interest in the proposed development.) The service shops should be just that -- shoe repair, laundry and dry cleaning pick-up, possibly barber and beauty shops, and similar types of personal and repair services.

We propose that Parcel B-10b (2.51 acres) be developed as follows:

43560
43560
22000
109020
30
79020

200

	Floor Area (Square Feet)
Supermarket	16,000
Drug	4,000
Shoppers-goods units	10,000
Total	30,000

space for 200 cars

The shoppers-goods units could be hardware/auto accessories, women's and men's wear or family clothing, shoe stores, piece goods, possibly a small limited-price variety unit, record shop, optical and possibly even a convenience-goods unit such as a bakery.

Cash Flow Pro Forma:

Anticipated annual rents:		
Theater	$13,000	
Service shops (4,200 sq.ft. @$2.50/sq.ft.)	10,500	
Service station (net land lease)	4,200	
Sub-total (Parcel B-14)	($27,700)	
Supermarket (16,000 sq.ft. @$1.50/sq.ft.)	$24,000	
Drug (4,000 sq.ft. @$1.65/sq.ft.)	6,600	
Other stores (10,000 sq.ft. @$2.00/sq.ft.)	20,000	
Sub-total (Parcel B-10b)	($50,600)	
Gross Rents	$78,300	
Operating expenses: 1/		revised
30,000 sq.ft. @ 35¢/sq.ft.	-$10,500	30,000
Net Operating Income	$67,800	$48300
Debt service:		
40,000 sq.ft. at $12/sq.ft. construction costs = $480,000		
Assume interest @ 10.5 percent constant =	-$54,400	
NET CASH FLOW	$13,400	$6,100
	Red	

1/ Excludes service station (net ground lease).

Indicated Land Value

We believe the rent, operating expense and debt service assumptions used in the cash flow pro forma to be realistic. An investor is expected to view them as reasonable and prudent. If the cash flow is capitalized at a 10 percent rate, the property (both parcels combined) would be worth $134,000.

It is recommended that Model Neighborhood, Inc. buy the property on the basis of projected cash flow, then sell the land to an institution and lease it back (sale/lease back) on the basis of cash flow. Under this proposal, Model Neighborhood, Inc. would have to apply the entire anticipated net cash flow to rent on the land. Thus, there would be no profit flowing to the company. On the other hand, the company would be accruing equity interest in the improvements on the property.

Thus, the institution owns the land, the financier of improvements owns the structures and Model Neighborhood, Inc. gets the residual interest in the structures at the termination of the debt service on these improvements.

We sincerely hope that this analysis will enable Model Neighborhood, Inc. to move ahead on this worthwhile project. It will be necessary to acquire the land for approximately $134,000, against the current established minimum price of $216,500 -- a reduction of $82,500. Nevertheless, we believe the established minimum price to be far in excess of the value indicated on the basis of cash flow. Furthermore, we believe our cash flow projections to be realistic and in line with what experienced commercial leasing people are finding in this type of location and given the suggested scale and character of development recommended.

If the price of the land can be reduced, we suggest contacting large financial institutions interested in a sale/lease back at a 10 percent net net rate. Because commercial banks are restricted in lending on unimproved real estate, their (M.N.I.) best bet is to try insurance companies.

If the sale/lease back can be arranged, the group should then contact a reputable commercial real estate developer to put together a package and handle leasing and management of the development.

We are pleased to donate our analysis to this worthwhile effort and we believe other firms and individuals in the Atlanta community will be happy to lend a hand as well. Please express our best wishes to Model Neighborhood, Inc.

Sincerely,

Alan

Alan E. Welty
Principal

AEW/pjh