



City of Mission Viejo

Date: October 24, 2023
To: City Council
From: Keith Rattay, Assistant City Manager
For: City Council Meeting
Subject: Estimate of Probable Construction Costs/LOS OSOS Master Plan and Retail Pro Forma

EXECUTIVE SUMMARY

The LOS OSOS project contains approximately 200,000 SF of improved community gathering and recreational space. This includes the renovated parking lot, North Paseo, Urban Alley, Entertainment Plaza, Urban Alley Plaza, Lower Creek Side Entertainment Plaza, Event Barn and Bridge Plaza, and the Oso Creek Trail.

The current project consists of 33,000 SF of retail building and 5,266 SF of the existing four retail establishments. Currently, there are 155 parking spaces located on the property. The proposed design eliminates 15,530 SF of building leaving 17,470 SF of building, which includes the four remote retail kiosks. In the proposed site plan, 108 parking stalls remain.

The drive aisle to the north of the Village Center entrance is shifted and rerouted towards the front of the current CVS building. The rerouted drive aisle is designed to be closed off during large events and provides space to accommodate booths for the weekly farmers markets and other community-based events. The closure of this road does not impact the traffic circulation or reduce the parking required for the LOS OSOS project.

The rear 39 ft. of the building is removed and redesigned to increase the space behind the building to accommodate the Urban Alley and Urban Alley Plaza. The new structures are glass and provide unobstructed views of the open space and the creek.

The project presented includes the following site plan components:

1. North Paseo Entrance
2. North Paseo North Paseo
3. Entertainment Plaza and Retail
4. Urban Alley
5. Creekside Entertainment Plaza
6. Lower Creekside Plaza

7. Event Barn Look Out
8. Marguerite Bridge Overlook
9. Oso Creek Trail
10. La Paz Bridge

The "Quick Reference Rough Order of Magnitude of Cost Estimate" for each area is below:

	Area	Description	Estimated Cost
1	North Paseo Entrance	Marguerite to driveway	\$1,316,615
2	North Paseo North Paseo	Driveway to front of retail	\$3,602,805
3	Entertainment Plaza and Retail Building	Renovated retail and outdoor plaza	\$14,599,430
4	Urban Alley	Retail kiosk, shade structure, elevator, landscape irrigation and plaza	\$8,231,066
5	Creekside Entertainment Plaza	Retail kiosk, retaining wall, landscape and irrigation	\$1,825,250
6	Lower Creekside Plaza	Hardscape, stairs, play structure, landscape and irrigation	\$1,678,500
7	Event Barn Look Out	Retaining wall, paseo bridge, hardscape, landscape and irrigation	\$6,435,750
8	Marguerite Bridge Overlook	Retaining walls, shade structure, hardscape, landscape and irrigation	\$610,000
9	Oso Creek Trail	Trail extension, trail fencing, lighting	\$600,000
10	La Paz Bridge	Landscape, hardscape, site amenities	\$493,000
	Subtotal		\$39,393,426
	General Conditions (7%)		\$2,757,540
	Fee (4%)		\$1,686,039
	GL Insurance (.95%)		\$416,452
	Total		\$44,253,456
	Construction Contingency (5%)		\$2,212,673
	Construction Cost + Contingency + Escalation (.5%/12 months)		\$49,121,336
	Barn Estimated Allowance		\$5,000,000

	Estimated Tenant Improvements		\$1,189,000
	Grand Total		\$55,802,049.52

The initial estimate to achieve the Core Area Vision Plan presented in September 2021 was 46 Million Dollars. The estimate included the purchase of the Former Stein Mart building. The building was purchased in December 2021. The proposed estimated cost is now \$67,802,049 (Stein Mart purchase \$12,000,000 + \$55,802,049.52) for a difference of \$21,802,049. This increase is reflective of a design that is more defined than what was presented in September 2021. Additionally, this represents a 32% increase which is in line with the significant increase in construction materials and labor costs that has occurred in most of the construction industry over the last few years. According to our Collaborative Design Team construction consultant, construction costs have not decreased, but they have stabilized. Additionally, this estimate includes a contingency and an escalation of approximately 5 million dollars.

Due to current financing costs, City staff is recommending a phased approach to the project. We have provided an estimate for a first phase. This phase includes constructing the North Paseo and Drive Aisle. The Estimate of Probable Construction Costs totals approximately \$6,195,576. This first effort will ensure that the initial recreational improvements in front of the MART building are completed and will allow the community markets and events to continue to reinforce the community gathering components of LOS OSOS. The estimate is shown below:

Recommendation

Estimate of Probable Construction Costs for Phase I

Implement phase one Design and Environmental Clearance (December 2023 - 1st Q 2025)
Construction (2nd Q 2025 - 3rd Q 2026)

Area	Description	Estimated Cost
North Paseo Entrance	Marguerite to driveway	\$1,316,615
North Paseo North Paseo	Driveway to front of retail	\$3,602,805
Subtotal		\$4,919,420
General Conditions (7%)		\$344,359
Fee (4%)		\$210,551
GL Insurance		\$52,006
Construction Total		\$5,526,337

Construction Contingency		\$276,317
Escalation (.5%/mo./12 months)		\$331,500
Construction Cost + Contingency + Escalation		\$6,134,234
Cost of Bond (1%)		\$61,342
Estimated Project Total Budget Phase I		\$6,195,576

Summary of the Current Capital Improvement Budget CIP 22336 Core Area Reinvestment Phase One

Budget	\$19,000,000
Cost of Building	\$11,900,000
Cost of Consultants	\$1,065,558.60
Misc. Costs	\$28,009.48
Total Expenditures	\$12,993,568.10
Total Available for Phase I	6,006,431.92

Retail Pro Forma Estimates for Phase II of the LOS OSOS Project

The City of Mission Viejo contracted with the LABco, the retail consultant on our Collaborative Design Team. Their report is attached as part of this memo. The report outlines the following:

The facility is estimated to contain approximately 15,470 SF of leasable space. In retail, there is a “ramping up” of about 3-5 years to achieve full rental capacity and full rental rates. Additionally, there are some expenses in running a facility that are not necessarily recoverable through rents and or Common Area Maintenance (CAM) charges. In the first few years, there is an industry expectation that there will be a 5% vacancy in tenants. The anticipated rental roll if the entire facility if leased is approximately \$1,226,595.

The chart below summarizes the first 5 years of operating Income projections:

Year	1	2	3	4	5
Management 30%	\$220,866	236,722	262,719	277,698	293,698
City 70%	\$515,353	552,351	613,012	648,179	685,298
Total Net Op Income	\$736,219	789,072	875,731	925,970	978,994

City Council requested that City staff solicit interest from the retail developer community to see if a retail partner would be interested in working with the City to develop a Public/Private Partnership in which to build the retail portion of LOS OSOS. The Retail Pro Forma as presented anticipates the City would fund the construction of the MART building retail conversion and bring in a retail management company to run the actual day to day operations.

The retail search also considers the retail partner buying the building back from the City in about year 5 once the businesses are up and running. Viable and successful tenant leases add value to the bottom line of commercial real estate.

Summary of Attachments

Core Area Master Plan Retail Estimated Cash Flow and Valuation

OSO Core Area Masterplan Retail Pro Forma Estimates Cash Flow & Valuation

Mission Viejo, CA

October 09, 2023



laktb

October 09, 2023

VALUATION & PURCHASE PRICE CALCULATION

Net Operating Income	Net Income Yr1	Net Income Yr2	Net Income Yr3	Net Income Yr4	Net Income Yr5	Net Income Yr6	Net Income Yr7	Net Income Yr8	Net Income Yr9	Net Income Yr10
	\$ 736,218	\$ 789,072	\$ 875,731	\$ 925,970	\$ 978,984	\$ 1,028,684	\$ 1,100,971	\$ 1,166,297	\$ 1,284,218	\$ 1,368,913

CAP RATE	Price Yr 1	Price Yr 2	Price Yr 3	Price Yr 4	Price Yr 5	Price Yr 6	Price Yr 7	Price Yr 8	Price Yr 9	Price Yr 10
5.00%	\$ 14,724,383	\$ 15,781,450	\$ 17,514,628	\$ 18,519,394	\$ 19,579,887	\$ 20,573,682	\$ 22,019,413	\$ 23,325,936	\$ 25,684,352	\$ 27,378,261
5.25%	\$ 14,023,221	\$ 15,029,952	\$ 16,680,598	\$ 17,657,518	\$ 18,647,512	\$ 19,593,983	\$ 20,970,869	\$ 22,215,177	\$ 24,461,287	\$ 26,074,534
5.50%	\$ 13,365,802	\$ 14,346,772	\$ 15,922,389	\$ 16,835,813	\$ 17,799,898	\$ 18,703,348	\$ 20,017,648	\$ 21,205,396	\$ 23,349,411	\$ 24,889,328
5.75%	\$ 12,803,811	\$ 13,723,000	\$ 15,230,112	\$ 16,103,821	\$ 17,025,989	\$ 17,890,159	\$ 19,147,316	\$ 20,283,422	\$ 22,334,219	\$ 23,807,183
6.00%	\$ 12,270,319	\$ 13,151,208	\$ 14,595,524	\$ 15,432,829	\$ 16,316,573	\$ 17,144,735	\$ 18,349,511	\$ 19,438,280	\$ 21,403,626	\$ 22,815,217
6.25%	\$ 11,779,506	\$ 12,625,160	\$ 14,011,703	\$ 14,815,515	\$ 15,663,910	\$ 16,458,946	\$ 17,615,530	\$ 18,660,749	\$ 20,547,481	\$ 21,902,609
6.50%	\$ 11,316,448	\$ 12,139,577	\$ 13,472,791	\$ 14,245,688	\$ 15,061,452	\$ 15,861,452	\$ -	\$ -	\$ -	\$ -

PURCHASE PRICE PER OPTION YEAR

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
ANNUAL NOI	\$ 736,219	\$ 789,072	\$ 875,731	\$ 925,970	\$ 978,984	\$ 1,028,684	\$ 1,100,971	\$ 1,166,297	\$ 1,284,218	\$ 1,368,913
LAB 30% (Yr)	\$ 220,866	\$ 236,722	\$ 262,719	\$ 277,791	\$ 293,698	\$ 309,604	\$ 326,511	\$ 343,418	\$ 360,325	\$ 377,232
City 70% (Yr)	\$ 515,353	\$ 552,351	\$ 613,012	\$ 648,179	\$ 685,286	\$ 719,080	\$ 774,460	\$ 822,879	\$ 923,893	\$ 991,681
Total Cash Flow to City	\$ 515,353	\$ 1,067,704	\$ 1,680,716	\$ 2,328,895	\$ 3,014,981	\$ 3,728,684	\$ 4,478,931	\$ 5,255,718	\$ 6,077,786	\$ 6,909,894

LAB CITY INCOME SHARE

INCOME CITY PROFIT SHARE

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Purchase Price (Cap Rate Calculation)	\$ 13,365,802	\$ 13,723,000	\$ 14,595,524	\$ 14,815,515	\$ 15,061,452	\$ 15,061,452	\$ -	\$ -	\$ -	\$ -
Cash Flow to City	\$ 515,353	\$ 1,067,704	\$ 1,680,716	\$ 2,328,895	\$ 3,014,981	\$ 3,728,684	\$ 4,478,931	\$ 5,255,718	\$ 6,077,786	\$ 6,909,894
Total Paid to City (Income + Purchase Price)	\$ 13,901,156	\$ 14,790,704	\$ 16,276,240	\$ 17,144,410	\$ 18,076,433	\$ 18,790,136	\$ 19,547,861	\$ 20,503,599	\$ 21,745,572	\$ 23,819,788
Total Price Per SF	\$ 898.59	\$ 956.09	\$ 1,052.12	\$ 1,108.24	\$ 1,168.43	\$ 1,228.62	\$ 1,288.81	\$ 1,348.99	\$ 1,409.18	\$ 1,469.37

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CDC @ Adams Wp. CDFI - ALEA High Rent Model

AID	Chville - MAP	Chville - MAP	Square Footage	Type of Space	Use Type	Total Leased Area	Estimated SF Rent	Total Monthly Rent	Total Annual Rent	Monthly CAM Charges By Space	Monthly Rent Plus CAM Charge (Column 8 & 10)	Annual Rent & CAM Charges (Column 11 & 12 Months)	Annual Future Sales (10% of Column 12)	Annual Salary (13) (Divided by Column 1)	Effective Breakdown Percentage Rent	Gross Percentage Rent**	TI \$***	TI Total Per Unit
A101	Bahn MI	Bahn MI	800			46,000 \$	3,833 \$	46,000 \$	54,800 \$	1,600 \$	56,400 \$	64,800 \$	648,000 \$	810 \$	911,000 \$	12,960 \$	75 \$	60,000
A102	Ramen	Ramen	950			54,150 \$	4,513 \$	54,150 \$	78,950 \$	1,900 \$	80,850 \$	78,950 \$	789,500 \$	810 \$	1,083,000 \$	15,390 \$	75 \$	71,250
A103	Huber Studio / Retail	Huber Studio / Retail	650			37,050 \$	3,088 \$	37,050 \$	43,850 \$	1,300 \$	45,150 \$	52,650 \$	526,500 \$	810 \$	711,000 \$	10,530 \$	45 \$	29,250
A104	Speakeasy / Music Venue	Speakeasy / Music Venue	1,830			184,310 \$	15,359 \$	184,310 \$	248,230 \$	3,650 \$	251,880 \$	148,230 \$	1,482,300 \$	810 \$	2,086,200 \$	29,646 \$	65 \$	118,500
A105	Health Café	Health Café	1,120			60,440 \$	5,037 \$	60,440 \$	72,800 \$	2,240 \$	75,040 \$	87,300 \$	873,000 \$	780 \$	1,209,600 \$	17,472 \$	75 \$	84,000
A106	Falikel Stand	Falikel Stand	710			46,470 \$	3,873 \$	46,470 \$	57,510 \$	1,470 \$	58,980 \$	57,510 \$	575,100 \$	810 \$	806,400 \$	11,502 \$	65 \$	46,500
A107	Ice Cream	Ice Cream	745			46,465 \$	3,872 \$	46,465 \$	57,505 \$	1,465 \$	57,970 \$	57,505 \$	575,050 \$	810 \$	844,300 \$	12,069 \$	65 \$	48,425
A108	NY Deli	NY Deli	880			56,180 \$	4,682 \$	56,180 \$	71,280 \$	1,760 \$	73,040 \$	71,280 \$	712,800 \$	810 \$	1,003,200 \$	14,256 \$	65 \$	57,200
A109	Huber Studio / Retail	Huber Studio / Retail	700			38,900 \$	3,242 \$	38,900 \$	46,725 \$	1,400 \$	48,125 \$	56,700 \$	567,000 \$	810 \$	791,000 \$	11,340 \$	45 \$	31,500
A110	Modern Steakhouse	Modern Steakhouse	2,040			110,160 \$	9,180 \$	110,160 \$	139,120 \$	4,000 \$	143,120 \$	159,120 \$	1,591,200 \$	780 \$	2,032,700 \$	21,824 \$	75 \$	153,000
A111	Huber Bock / Retail	Huber Bock / Retail	150			9,900 \$	825 \$	9,900 \$	11,825 \$	300 \$	12,125 \$	13,500 \$	135,000 \$	900 \$	150,000 \$	2,700 \$	45 \$	6,750
A112	Coffee Bar	Coffee Bar	250			15,000 \$	1,250 \$	15,000 \$	17,500 \$	500 \$	18,000 \$	21,000 \$	210,000 \$	840 \$	300,000 \$	4,200 \$	55 \$	13,750
A113	Juice Bar	Juice Bar	360			18,440 \$	1,537 \$	18,440 \$	22,840 \$	720 \$	23,560 \$	28,080 \$	280,800 \$	780 \$	386,800 \$	5,616 \$	55 \$	15,000
A114	Community Room	Community Room	750			48,500 \$	4,042 \$	48,500 \$	67,900 \$	2,250 \$	70,150 \$	87,900 \$	879,000 \$	900 \$	1,190,000 \$	13,500 \$	55 \$	15,000
A115	Taqueria	Taqueria	260			17,940 \$	1,495 \$	17,940 \$	21,835 \$	1,040 \$	22,875 \$	30,420 \$	304,200 \$	1,170 \$	356,600 \$	6,084 \$	85 \$	16,500
B201	Tapas & Wine	Tapas & Wine	1,200			64,000 \$	5,333 \$	64,000 \$	77,600 \$	2,400 \$	80,000 \$	97,200 \$	972,000 \$	810 \$	1,316,000 \$	18,440 \$	75 \$	90,000
B202	Sh-Down Mexican / Medical Bar	Sh-Down Mexican / Medical Bar	1,200			48,400 \$	4,033 \$	48,400 \$	58,080 \$	3,600 \$	61,680 \$	87,700 \$	877,000 \$	810 \$	1,316,000 \$	18,440 \$	75 \$	90,000
P1	Paties 1 (6 x 85ft)	Paties 1 (6 x 85ft)	425			37,800 \$	3,150 \$	37,800 \$	44,850 \$	1,400 \$	46,250 \$	54,900 \$	549,000 \$	900 \$	1,190,000 \$	13,500 \$	55 \$	15,000
P2	Paties 2 (13 x 150ft)	Paties 2 (13 x 150ft)	450			18,900 \$	1,575 \$	18,900 \$	22,680 \$	700 \$	23,380 \$	28,080 \$	280,800 \$	780 \$	386,800 \$	5,616 \$	55 \$	15,000
Total P1/P2						875	56,700 \$	4,725 \$	56,700 \$	67,530 \$	2,100 \$	69,630 \$	829,800 \$	1,710 \$	2,506,800 \$	34,056 \$	110 \$	165,000

*Natural Breakpoint calculation is based on using 2% as the metric (5% of the annual rent - that number in terms of annual sales). This is a recognized formula to generate additional revenue as a percentage of sales.

**Gross Percentage Rent is a second method in which to generate additional revenue. Typically, it is either method 15 or 16, but not both.

**Estimated annual improvement for initial occupation of the space, listed by space square footage.

REVENUE SUBSUMMARY	Revenue Growth	Expense Growth	Revenue Growth	Expense Growth
A	15	15.195	57,294 \$	87,825 \$
B	2	2.600	11,400 \$	18,800 \$
Permits	8	8.75	3,683 \$	38,250 \$
Total			72,377 \$	144,875 \$

REVENUE SUBSUMMARY

Revenue Growth: 5.00%

Expense Growth: 4.00%

REVENUE

5% Vacancy: 145,206 \$

Lease Hold / Cap Ex: 437,220 \$

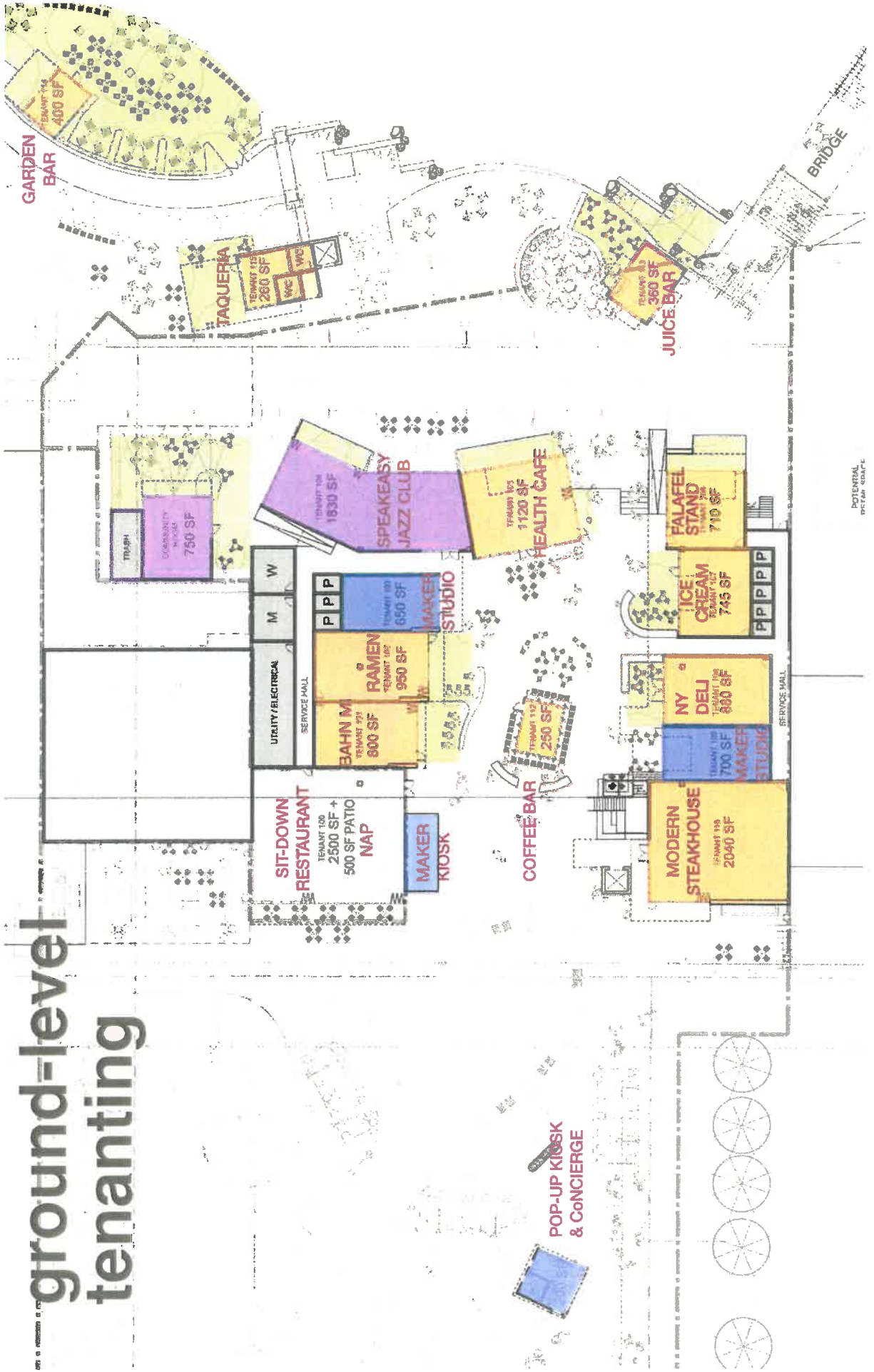
CAM Reimbursements: 632,520 \$

CAM Expenses: 632,520 \$

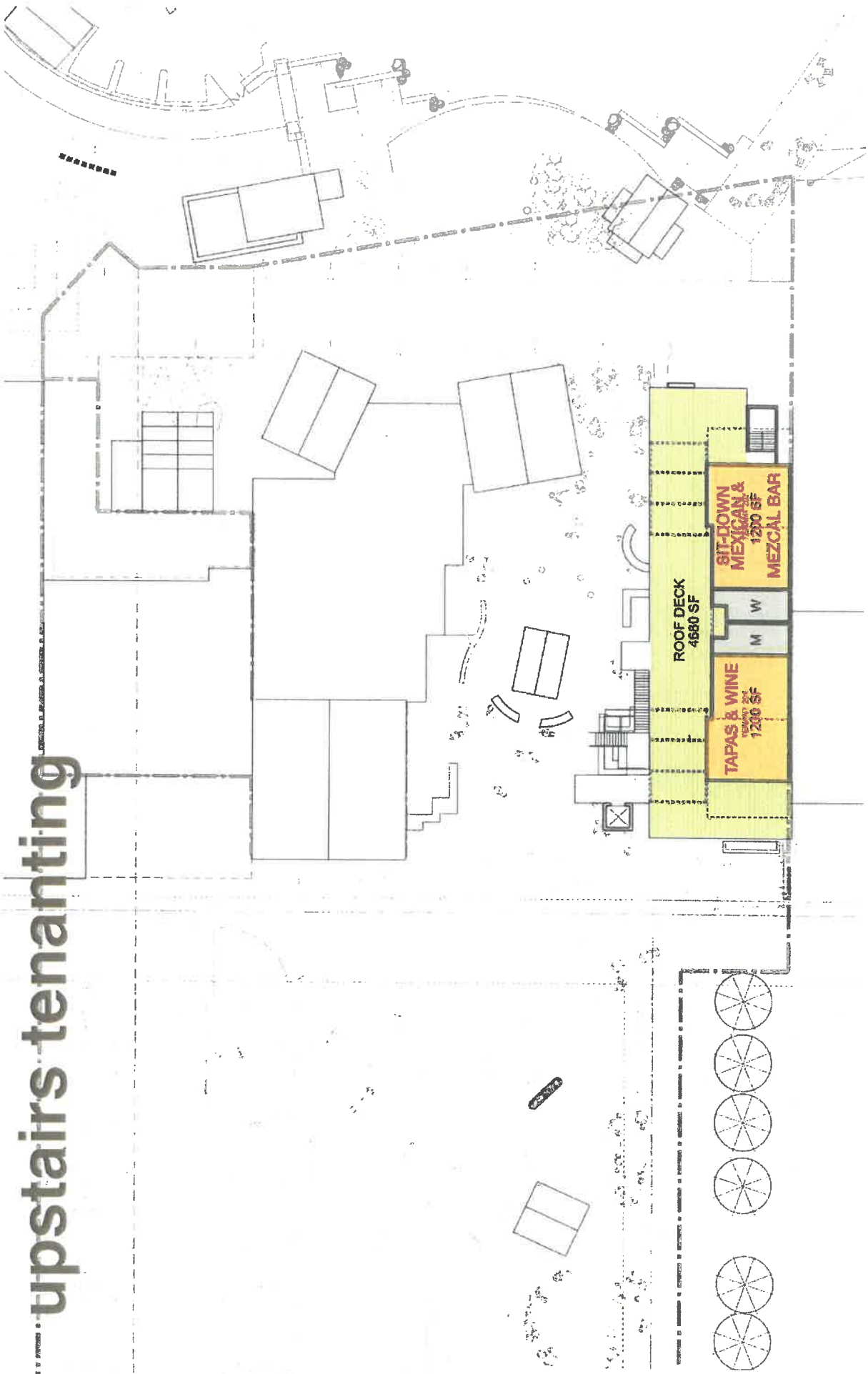
Non-Recoverable Expenses: 185,227 \$

NET OPERATING INCOME BEFORE DEBT SERVICE: 736,219 \$

ground-level tenanting



upstairs tenanting



Thank you

Mission Viejo, CA

October 09, 2023



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