County of Orange

El Toro MCAS Parcel
Revenue Generation Study
January 2008

Gensler *Team*

Part I. **BACKGROUND and CONTEXT**

Background and Context

The El Toro MCAS Parcel

In 1999 the U.S. Department of the Navy decommissioned the El Toro Marine Corps Air Station (MCAS). In 2005, Lennar Corporation purchased the land at auction from the U.S. Department of the Navy. The purchase agreement included many environmental, transactional, and development restrictions and created a public/private partnership responsible for development.

Among the provisions included in the purchase agreement was the requirement that more than 1,300 acres of land be transferred to public ownership. Of the land set aside for public ownership, 100 acres were identified for ownership and use by the County of Orange for public and institutional uses.

Stakeholder Outreach Initiative

In April 2007, the County through its Resources and Development Management Department (RDMD) initiated a preliminary outreach program with various stakeholders to determine how the property should ultimately be utilized.

Notwithstanding the well-known current restrictions to development, the emphasis was to elicit creative opinions unconstrained by environmental and regulatory factors.

From May to July 2007, the Gensler Team conducted 32 interviews with public officials, private sector developers, and representatives from educational institutions and non-profit organizations. At the conclusion of the interview process, the Team documented views of each stakeholder and synthesized ideas shared by multiple stakeholder groups (see the *El Toro Parcel Utilization Stakeholder Outreach Report, October 2007).*

The range of ideas was impressive. Some interviewees felt strongly that the County has an obligation to use the Parcel to serve its constituents, while others felt just as strongly that the Parcel should be sold to the highest bidder and developed according to the demands of the market.

Background and Context

Outreach Findings: Revenue Generating Potential

Of the many findings from the Stakeholder Outreach, the following were particularly relevant to the site's potential as real estate revenue generator:

- The Parcel will gain value if it can be re-zoned and entitled for development.
- The prospect of a public/private partnership could provide both an ongoing revenue source to the County as well as a potential for increasing land value.
- Since the environmental clean-up effort is likely to take several years, there may be interim uses that could generate income for the County.

Further, some stakeholders felt that there were particular real estate sectors that would be more appropriate for the Parcel than others. For example, an industrial facility might require less environmental mitigation and generate less trips than other uses. Since Heritage Fields plans to create a transit-oriented district (T.O.D) adjacent to the Parcel, there might be an opportunity to expand onto the County parcel. The retail sector seemed less likely to be a fit given local market conditions.

Parcel Revenue Study

As an outgrowth of these findings, RDMD and the Gensler Team has continued to explore the revenue generating potential of the site. This report documents four possible development scenarios ranging from what would be permitted under the current trip generation allocation from Adopted Environmental Impact Report (May 2003) to a market-driven mixed use development similar to what is designated in the adjacent T.O.D.

Part II. **Four Scenarios**

Four Scenarios

Overview

Scenario 1: Interim Uses
This scenario accounts for the possibility that "interim" uses could generate significant income for a relatively long period of time. Clean-up, re-entitlement activities, title transfer, progress on the Great Park, and perhaps market conditions suggest that interim activities be planned and implemented comprehensively.

Scenario 2: Single Family Attached or Detached Residential (644 market-rate units)
This scenario assumes that the current trip allocation to the Parcel remains in place and that a zone change would be granted without re-opening the Environmental Impact Report.

Scenario 3: Industrial Development (with Rail Yard)
This scenario is presented in 2 parts. The first explores a private industrial development alone while the second combines the industrial development with an OCTA rail yard. It assumes that the OCTA would purchase 25 acres of the Parcel and that the County would lease the remaining 75 acres to private industrial developers. Industrial uses would be limited to warehousing and distribution facilities.

Scenario 4: Market-Driven Mixed Use
This case assumes that the entitlement restrictions are lifted. A combination of high-density residential, commercial, and perhaps private institutional uses would be included.

There are 2 non-County warehouses located at the southern end of the Parcel that occupy an additional 11.7 acres of land. For the purpose of this analysis, it is assumed that the County will not purchase this land in order to increase the Parcel size and its revenue generating potential.

Assumptions on Revenues and Costs

Revenues

- All land values and lease revenues are reported at their present value as of February 2008.
- Annual lease revenues are capitalized at 8% of land value.
- Land values are derived from anecdotal information provided by several of the private-sector individuals who participated in the Stakeholder Outreach program.
- The Parcel will gain value if it can be re-zoned and entitled for development.
- Because the Parcel is in a redevelopment project area, tax increment revenue will be generated as private sector development occurs and assessed value is added to the tax roll.

Costs
The County will need to prepare pro formas which reflect the development costs necessary for an either an outright sale or ground lease (interim and long-term). Depending on the scenario, the costs listed below could be incurred. Such costs have not been quantified in this analysis.

- Master planning.
- EIR amendment, including legal expenses, outreach, and technical studies.
- Environmental remediation (not funded by the Department of the Navy).
- Marine Way realignment.
- Grading and utilities.
- Marketing and transactional activities.
- Ongoing lease management.

Land Use Model Components

Each revenue generation scenario utilizes a set of graphic "blocks" as a means to represent gross revenue potential for each unit of land. Each "block" represents one acre, and the color of the block reflects the type of land use. Note that the blocks are not meant to indicate with any precision where on the Parcel development of a particular type might occur.

The diagram below illustrates how the actual Parcel boundary relates to the area approximated by the building blocks. The blue dashed line designates the proposed Marine Way realignment. The two hollow red rectangles in the bottom-right corner of the Parcel are outlines of the non-County warehouses and are assumed to be excluded for this study.

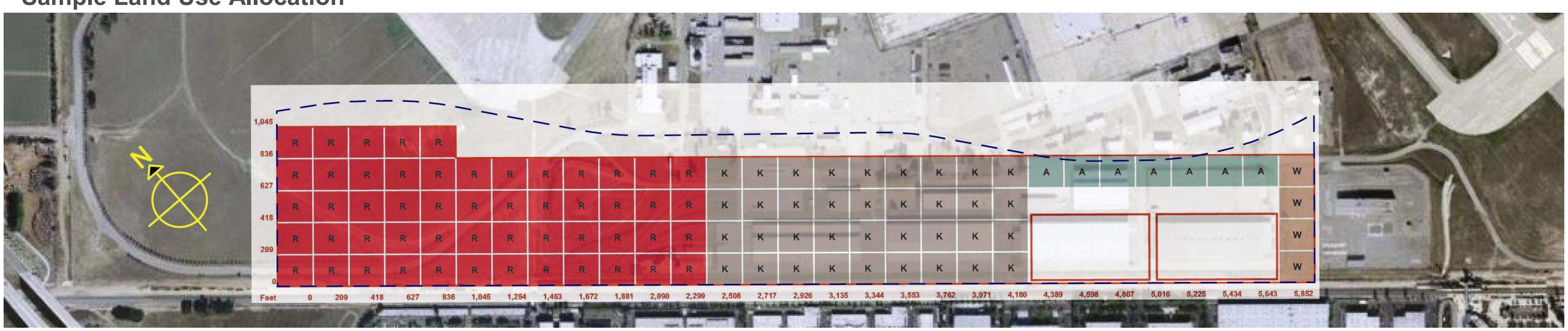
The example below shows a land use scenario comprised of 53 acres of residential use, 36 acres of parking (such as an RV lot), 7 acres of agricultural land (such as a nursery), and 4 acres of warehouse space.

This revenue report is also accompanied by an Excel-based model which can be manipulated to test numerous scenarios.

Legend

S	Single Family Residential	A	Agricultural
M	Multi-Family Residential	W	Warehouse
H	Hotel	K	Parking Lot
R	Retail	L	Light Industry
O	Office	I	Heavy Industry
G	Governmental	P	Public Open Space
E	Educational	- - - -	Marine Way

Sample Land Use Allocation



Scenario 1: **Interim Uses**

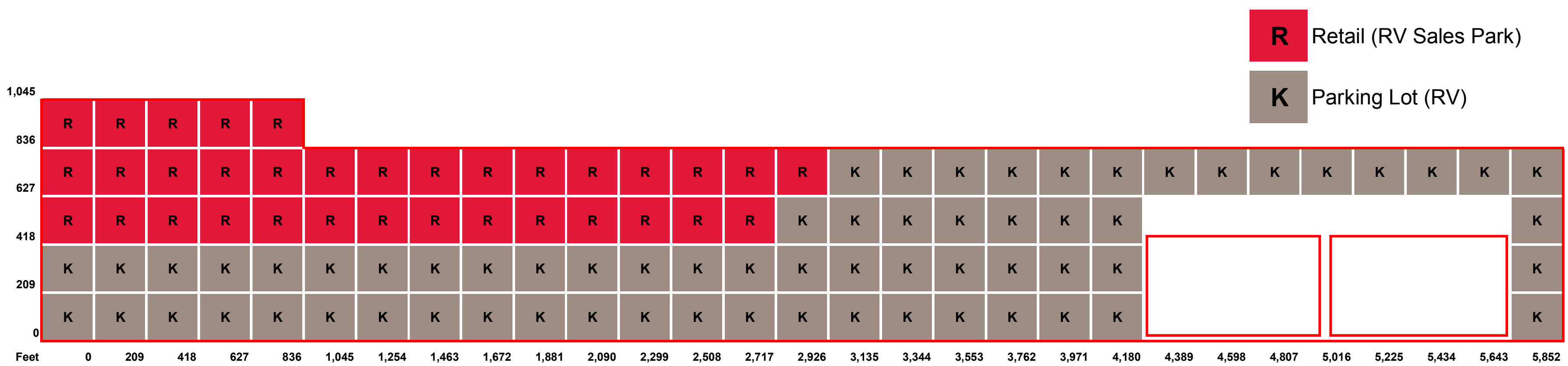
As the U.S. Navy completes its clean-up of the Parcel area over the next 8 to 10 years, there may be land use options that can generate revenue to the County over the interim period as long as they don't interfere with the clean-up efforts. Suggestions that arose during the Stakeholder Outreach process included a plant nursery, an RV parking lot, an RV sales center, or storage and warehouse space.

There is a range of revenue possibilities for these uses. The accompanying table shows a range of revenues per acre that reflect the use type. For illustrative purposes, the average price per acre is used to develop the total potential revenue for this static scenario.

Another interim use possibility is to place retail nurseries on the Parcel. While nurseries would provide the County with $3,500 to $4,500 per acre per year, we did not include this use in the scenario as it would not maximize potential revenue to the County.

Interim Use	Annual Revenue Range per Acre	Annual Revenue per Acre (this Scenario)	No. of Acres	Annual Revenue
RV Parking Lot	$22,000 - $40,000	$31,000	66	$2.0 million
RV Sales	$29,400	$29,400	34	$1.0 million
		Total	**100**	**$3.0 million**

Estimated Total Annual Tax Increment Revenue (year 1): $152,280
Estimated County Share of Annual Tax Increment Revenue (year 1): $15,228



Scenario 2: **Single Family Attached or Detached Residential**

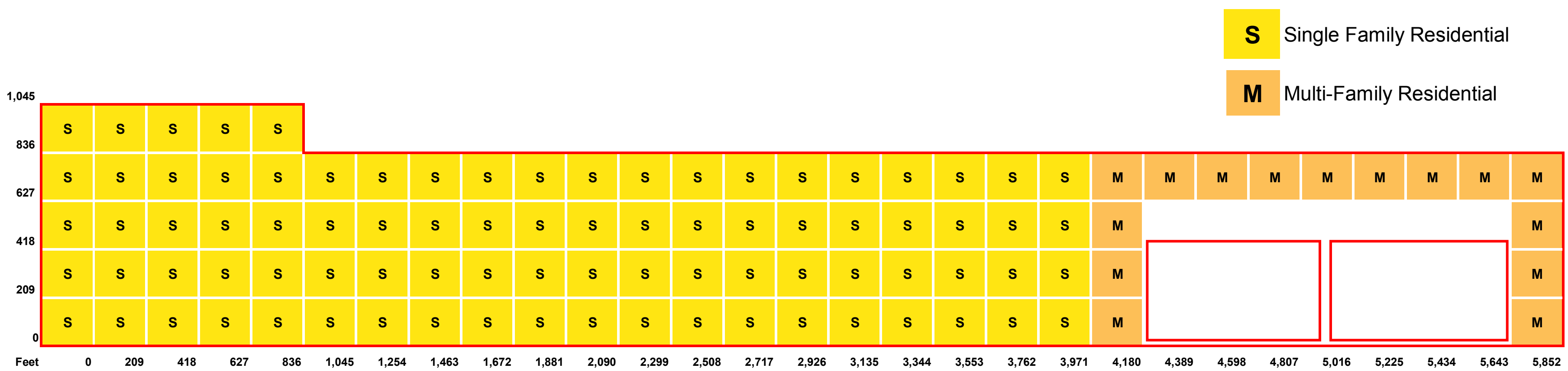
The current EIR constrains the trip count for the entire El Toro area. To illustrate the revenue potential of the existing entitlements, a single family attached or detached scenario is shown below.

It is assumed that the County can develop the 644 units* across the entire Parcel area and that the 2 non-County warehouses can either be demolished or reused to support the residential development.

**Further study required*

Land Use	Units per Acre	Price per Unit*	Price per Acre	No. of Acres	Potential Revenue
Single Family Attached or Detached Residential	6.4	$200,000	$1.28 million	100	$129 million
		Total		**100**	**$129 million**

Estimated Total Annual Tax Increment Revenue: $4.5 million
Estimated County Share of Annual Tax Increment Revenue: $448,000



Scenario 3: **Industrial Development With and Without OCTA Rail Yard**

During the Stakeholder Outreach, several participants discussed industrial development in the form or warehousing and distribution facilities.

One transactional idea envisioned a profit-sharing arrangement in which an industrial developer would buy the land, develop the Parcel, and enter into an agreement to share a portion of the profits with the County.

A second idea has the County as an equity partner in the development. A joint venture would be created so the County would contribute the land– its equity share –and the industrial developer would build and manage the property. Returns to each party would be determined on their percentage of equity in the joint venture.

In a third proposition, the County would enter ground leases with the developer.

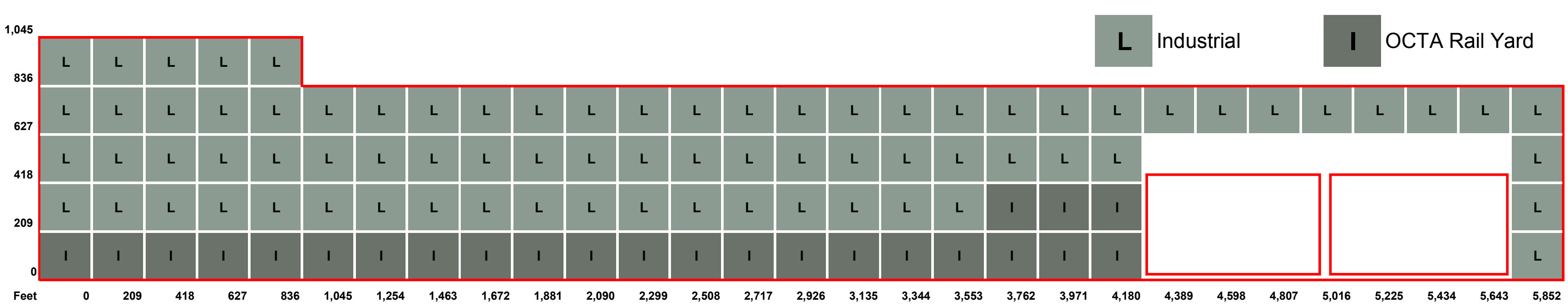
Scenario 3 illustrates the ground lease alternative. The table on the right shows the annual revenue to the County assuming an annual capitalization rate of 8% of land value.

One of the findings from the Stakeholder Outreach was that the OCTA is greatly in need of a rail service yard to accommodate rail traffic generated from the planned track expansions over the next 10 years. For the purposes of this scenario, it is assumed that the OCTA purchases 25 of the County's 100 acres at the market rate. However, if the County decides that it is in the public's interest to transfer the property at less than market value, then a reduction in total proceeds would occur.

Land Use	Price per Square Foot	Assumed Price (this Scenario)	No. of Acres	Annual Revenue if Leased (8% of land value)	Total Revenue if Sold
Industrial	\$35 - \$40	\$37.50	75	\$9.8 million	\$122.5 million
OCTA Rail Yard	\$35 - \$40	\$37.50	25	\$3.3 million	\$40.8 million
		Total	**100**	**\$13.1 million**	**\$163.3 million**

Estimated Total Annual Tax Increment Revenue: \$1.6 million

Estimated County Share of Annual Tax Increment Revenue: \$163,350



Scenario 4: **Market Driven Mixed-Use Development**

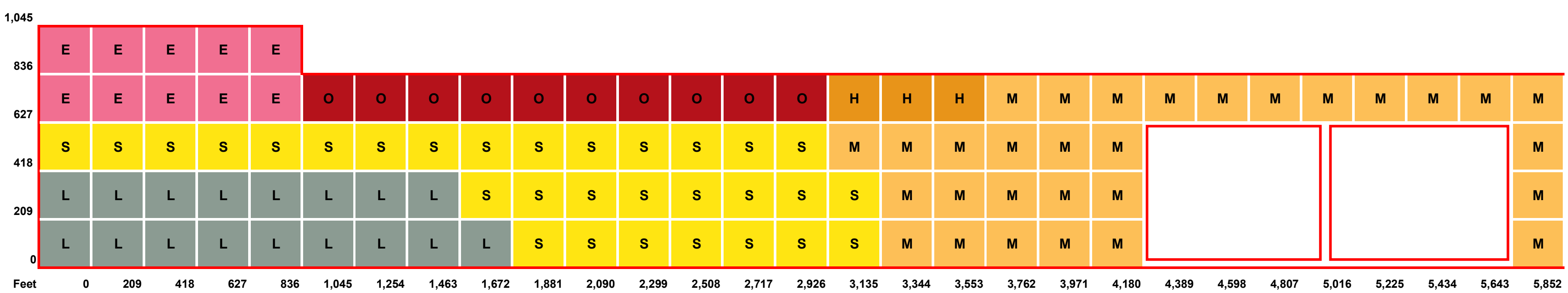
Scenario 4 assumes that the EIR can be amended to accommodate the same land rights as the adjacent transit-oriented development (TOD) planned by Heritage Fields in the Irvine Spectrum district. In essence, the Parcel is sold as a seamless extension of the TOD.

Residential use would probably be the highest revenue generator of all the other property types. For the purposes of this scenario, it is assumed that 70 acres of land are designated for residential development, and that 50% of the residential land is developed as for-sale condos, and the other half as rental apartments. Further, local hospitality consultants have expressed that demand exists to support a 3-acre moderately-priced hotel to accommodate 150 beds. Ten acres will be dedicated to an educational institution willing to pay market rate for the land. For the remaining land in this scenario, there are 10 acres allocated for office space and 17 acres to light industrial.

Land Use	Price Assumption (this scenario)	Price per Acre	No. of Acres	Potential Revenue
Residential Apartments (15 per acre)	$120,000 per unit	$1.8 million	30	$54 million
For-Sale Condominiums (15 per acre)	$120,000 per unit	$1.8 million	30	$54 million
Moderately Priced Hotel (150 beds)	$40 psf	$1.7 million	3	$5.2 million
Educational	$40 psf	$1.7 million	10	$17.4 million
Office	$40 psf	$1.7 million	10	$17.4 million
Light Industrial	$40 psf	$1.7 million	17	$29.6 million
		Total	**100**	**$177.6 million**

Estimated Total Annual Tax Increment Revenue: $3.3 million
Estimated County Share of Annual Tax Increment Revenue: $328,896

S Single Family Residential
E Educational
M Multi-Family Residential
O Office
H Hotel
L Light Industry



Part III. **Next Steps**

Next Steps

The revenue generating potential of the Parcel can only be known after an exhaustive study of the financial, economic, environmental and regulatory issues at stake. This involves undertaking greater due diligence on all fronts in order to determine the feasibility of achieving any specific land use.

The first stage should be to research the pre-development costs and components in greater detail. Specifically, the County needs a thorough audit of the environmental condition of the Parcel. There may be some areas of the Parcel that will be developable before others. Further, there may be partners who can expedite the Navy's clean-up efforts in order to prepare the Parcel for specific uses.

Second, it should be better understood how public infrastructure will be financed and developed according to specific land uses.

Third, this analysis has touched upon the County's variety of options in regards to public/private partnerships. Because these deals can be structured numerous ways, it should be known how exactly these deals could be structured, and which would most benefit the County depending on fiscal needs.

There will certainly be many regulatory issues at-stake should the County want to use the Parcel for uses that would increase the allotted trip count. A strategic analysis should be conducted to determine the feasibility of opening the EIR, and setting a realistic timeline and budget in order to obtain all of the approvals needed for a particular use.

Part IV. **Appendix**

Appendix: **Tax Increment Calculation Assumptions**

Methodology
The gross annual tax increment is estimated at 1% of the assessed land value of sold property, or 1% of the remaining lease payments on a ground lease issued by the County to a private entity. For resale property, an assumption was made on the price per unit (single family residential) or price per square foot (for sale condominiums) in order to determine the assessed value of fully-developed property.

The County share of the gross annual tax increment is 10%. The estimates represent the amount of the first year's tax increment only. Subsequent annual increments will be determined by re-assessed land values due to resale as well as the amortization of County-issued ground leases.

Scenario 1: Interim Uses
Initial Lease Term: 5 years (with 1-year renewal options)
RV Parking Lot Annual Lease Payment: $31,000
Parking Lot Size: 66 Acres
Parking Lot Assessed Value: $10.2 million
RV Sales Park Annual Lease Payment: $29,400
RV Sales Park Size: 34 Acres
RV Sales Park Assessed Value: $5.0 million
Total Assessed Value of Parcel: $15.2 million
Gross Annual Tax Increment (1%): $152,280
County Share of Tax Increment (10%): **$15,228**

Scenario 2: Single Family Attached or Detached Residential (644 market-rate units)
Single Family Home Sales Price: $700,000
Units per Acre: 6.4
Number of Acres: 100
Total Assessed Value of Parcel: $448 million
Gross Annual Tax Increment (1%): $4.48 million
County Share of Tax Increment (10%): **$448,000**

Scenario 3: Industrial Development (with Rail Yard)
Price per Square Foot: $37.50
Assessed Value Per Acre: $1.6 million
Number of Acres: 100
Total Assessed Value of Parcel: $163 million
Gross Annual Tax Increment (1%): $1.6 million
County Share of Tax Increment (10%): **$163,350**

Scenario 4: Market-Driven Mixed Use
FOR SALE CONDOS
Price per Square Foot (for-sale condo): $380
Square Feet per Unit: 1,200
Units Per Acre: 15
Number of Acres: 30
Assessed Value of For-Sale Condominiums: $205 million

MIXED USES
Price Per Square Foot Mixed-Use (Rental Apts, Hotel, Educational, Office, Light Industrial): $40
Number of Acres: 70
Assessed Value of Mixed-Use: $124 million

TOTAL
Total Assessed Value of Parcel: $329 million
Gross Annual Tax Increment (1%): $3.3 million
County Share of Tax Increment (10%): **$328,896**