

# FINANCIAL HARDSHIP ANALYSIS 1524-34 SOUTH STREET (ROYAL THEATER)

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Before the Philadelphia Historical Commission

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Econsult Solutions Inc.

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# QUALIFICATIONS

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- Peter A. Angelides, Ph.D., AICP
  - Econsult Solutions, Inc. (Principal)
  - University of Pennsylvania (Faculty)
- Econsult Solutions, Inc.
  - Economic Development
  - Transportation
  - Real Estate
  - Public Policy/Finance

# FINANCIAL HARDSHIP – CONCLUSION

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There is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses.

# SUMMARY

	Retail	Single Screen	Multi- Screen	Live Shows	Residential	Retail / Residential	Retail / Commercial
Total Cost	\$11.0	\$15.2	\$12.7	\$13.9	\$12.6	\$11.7	\$11.2
Less Subsidy	-\$2.1	-\$2.4	\$0.0	-\$2.4	\$0.0	\$0.0	\$0.0
<b>Remaining Cost</b>	<b>\$8.9</b>	<b>\$12.7</b>	<b>\$12.7</b>	<b>\$11.5</b>	<b>\$12.6</b>	<b>\$11.7</b>	<b>\$11.2</b>
NOI	\$0.2	\$0.1	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3
Cap Rate	7.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%
<b>Value of finished project</b>	<b>\$2.8</b>	<b>\$1.0</b>	<b>\$4.2</b>	<b>\$4.1</b>	<b>\$4.5</b>	<b>\$4.1</b>	<b>\$4.2</b>
<b>Net value of project</b>	<b>(\$6.6)</b>	<b>(\$12.8)</b>	<b>(\$10.0)</b>	<b>(\$7.4)</b>	<b>(\$8.1)</b>	<b>(\$8.1)</b>	<b>(\$7.5)</b>

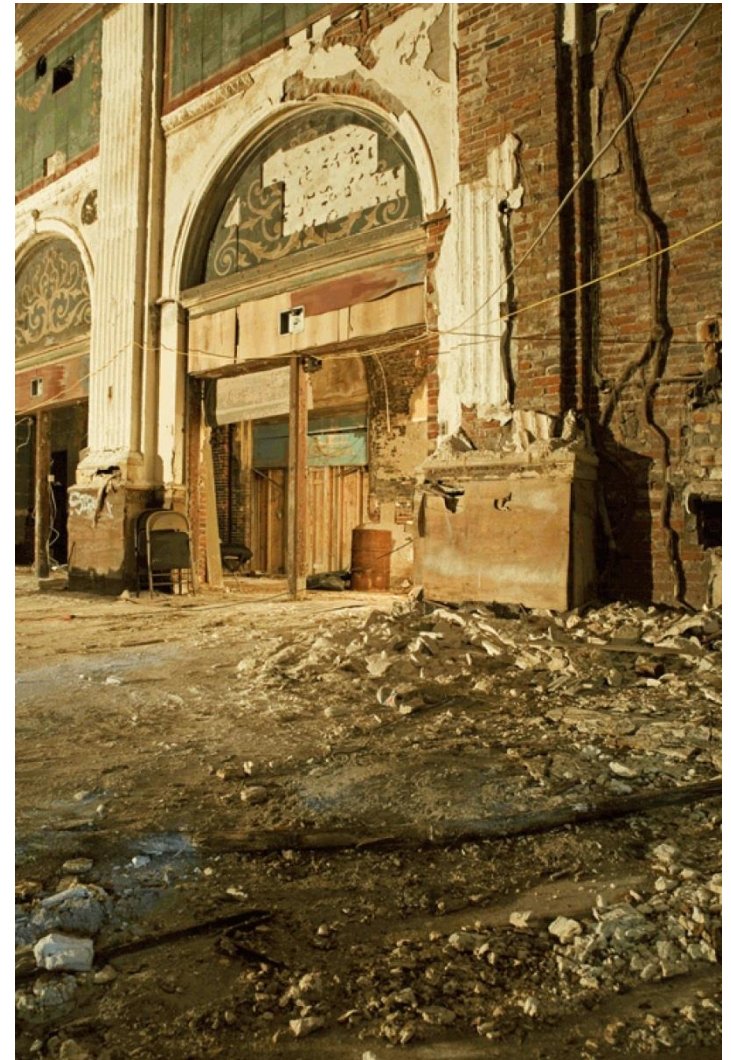
# THE ROYAL THEATER

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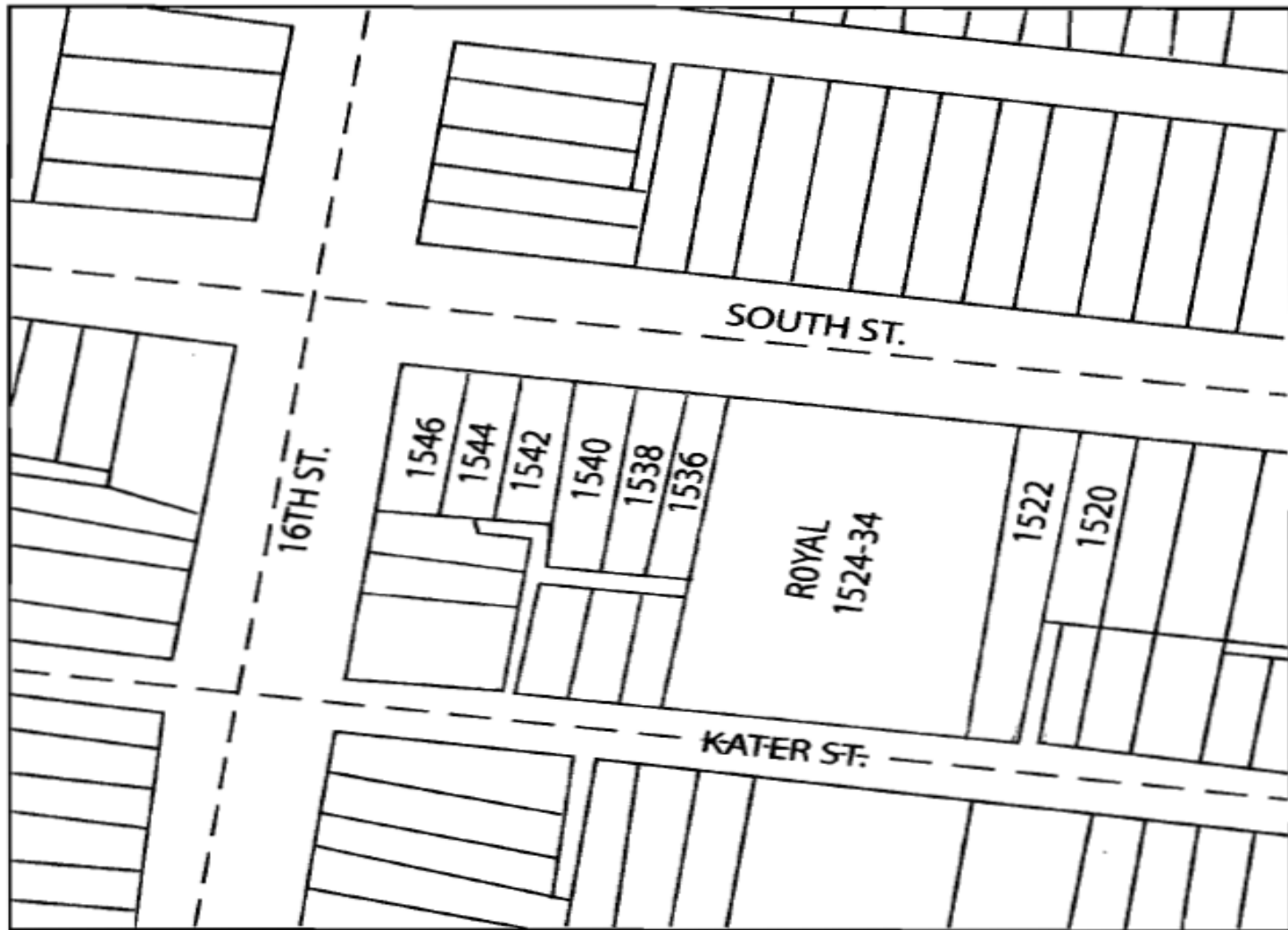
- Built as a performance and film theater
- Closed in 1970
- Has been left vacant since then
- Building currently faces significant structural challenges to be put back into use

# CURRENT CONDITION

- All systems need replacement
- Interior suffers from water infiltration and invasive vegetation
- Fire has damaged the second and third floor walls and roofing



# ROYAL THEATER LOCATION



# FINANCIAL ANALYSIS OVERVIEW



# FINANCIAL HARDSHIP – APPROACH

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- Independent research
  - Interviews
  - Industry standard materials
  - Comparable venues
- Financial Analysis
  - Development cost and funding sources
  - Income and expenses from operations

# INPUTS

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- Construction costs
  - Cost estimates by Allied Construction
  - Soft costs are 20 percent of construction costs
- “As of Right” tax incentives
  - Philadelphia property tax abatement
  - Federal Historic Tax Credit (20%)
  - State Historic Tax Credit (\$500,000) (Assumed)
- Operating revenue – rent, tickets, etc.
- Operating costs – personnel, programming, etc.

# GENERAL APPROACH

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- Realistic assumptions
- Bank loans based on development cost and not value

# REUSE SCENARIOS

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- Highly specialized space limits options
  - Big box
  - Mid block
  - Open space
  - Sloping floor

# REUSE SCENARIOS

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1. Retail
2. Movie Theater
  - a. Single-Screen Movie Theater
  - b. Two-Screen Movie Theater
3. Live Performance Venue
4. Residential
5. Mixed Use Retail and Residential
6. Mixed Use Retail and Commercial

# COST: \$10M TO \$13M AFTER TAX INCENTIVES

	Retail	Single Screen	Multi-Screen	Live Performance	Residential	Retail / Residential	Retail / Commercial
<b>Costs</b>							
Land Cost	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Construction Cost	\$8.4	\$11.7	\$9.8	\$10.7	\$9.6	\$8.9	\$8.5
Soft Cost	\$2.6	\$2.9	\$2.4	\$2.7	\$2.4	\$2.2	\$2.1
<b>Total Cost</b>	<b>\$11.6</b>	<b>\$15.2</b>	<b>\$12.7</b>	<b>\$13.9</b>	<b>\$12.6</b>	<b>\$11.7</b>	<b>\$11.2</b>
<b>Tax Incentives</b>							
Tax Credit - Federal	\$1.6	\$1.9	\$0.0	\$1.9	\$0.0	\$0.0	\$0.0
Tax Credit - State	\$0.5	\$0.5	\$0.0	\$0.5	\$0.0	\$0.0	\$0.0
<b>Net Cost (after Tax Incentives)</b>	<b>\$9.5</b>	<b>\$12.7</b>	<b>\$12.7</b>	<b>\$11.5</b>	<b>\$12.6</b>	<b>\$11.7</b>	<b>\$11.2</b>

# RETAIL – ENVIRONMENT

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- Retail likes corners, wide street frontage
- Current South Street west retailers
  - Smaller shops
  - Local stores - very few national brands
  - Foot traffic would not likely attract a large retailer
  - Local retailers would be more interested in subdividing the available space



# RETAIL – EXISTING SPACE I

Between 15<sup>th</sup> and 16<sup>th</sup> on South Street



*Images from Google Streetview*

# RETAIL – EXISTING SPACE II



*Images from Google Streetview*

# RETAIL – ROYAL CONSIDERATIONS

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- 8,500+ SF with 30-35 foot ceiling
- The Royal is not ideal retail space
  - Not on corner
  - 1500 block of South is not prime location
  - Undesired interior décor
  - Sloping floor
  - Larger space than most retailers want
  - Deeper space than most want

# RETAIL – RENT POTENTIAL

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- Asking rents mostly in the \$20s

Address	Rents (\$/SF)	SF
1622 South St	\$18	1,156
1620 South St	\$22	1,100
1717 South St	\$22	700
1424 South St	\$24	900
1610 South St	\$25	850
1506 South St	\$26	1,140
1618 South St	\$26	800
1511 South St	\$30	800
1733 South St	\$34	700

- Achievable rent: **\$20-25 per square foot**
  - Higher in front, lower in back

# RETAIL – OPERATING MODEL

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<b>Operating Revenue</b>	<b>(\$m)</b>
Rent (Based on \$25 / SF)	\$0.23
Vacancy	\$0.01
Other	\$0.00
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Total Revenue	\$0.22

<b>Operating Expenses</b>	
Maintenance	\$0.01
Administrative and Overhead	\$0.01
Other Expenses	\$0.00
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Total Costs	\$0.02

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<b>Net Operating Income</b>	<b>\$0.20</b>
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# RETAIL – DEVELOPMENT MODEL

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Measure	Amount (m)
Development Cost	\$11.6
Tax Credits	\$2.1
Net Operating Income	\$0.2
Cash Flow	-\$0.3
Implied Value of Building (7%)	\$2.8
<b>Net Present Value (12%)</b>	<b>-\$4.0</b>
<b>IRR (Return)</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$6.6</b>

*NOI, cash flow and implied value are all based on first operating year. Fit out is not included in the net value of the project*

# MOVIE THEATER – DESCRIPTION AND MARKET CONSIDERATIONS

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- Restoration would include quite rehabilitation of the structure
  - 400 seats for single screen
  - 175 seats each for double screen
- Single-screen theater generally not a viable for-profit business model
- Movie theaters in Philadelphia have an average of 7.8 screens

# MOVIE THEATER – PHILADELPHIA CINEMA REVENUE

Theater	Screens	2012 Gross Ticket Revenue	Revenue per Screen
University 6	6	\$3,444,265	\$574,044
Main Street Theatre 6	6	\$3,269,964	\$544,994
Franklin Mills 14 with IMAX	14	\$5,698,888	\$407,063
Riverview Plaza	17	\$7,296,083	\$429,181
Pearl At Avenue North	7	\$2,703,430	\$386,204
Ritz East Twin	2	\$673,494	\$336,747
Ritz 5	5	\$1,410,048	\$282,010
Ritz At The Bourse 5	5	\$801,444	\$160,289
Average	7.8	\$3,162,202	\$408,026



# MOVIE THEATER – OPERATING MODEL

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<b>Operating Revenue</b>	Single Screen	Double Screen
Ticket	\$0.45	\$0.91
Concessions	\$0.23	\$0.45
Advertising	\$0.05	\$0.09
<b>Total Revenue</b>	<b>\$0.73</b>	<b>\$1.45</b>
<b>Operating Expenses</b>		
Movie Rentals	\$0.25	\$0.49
Personnel	\$0.20	\$0.20
Other Expenses	\$0.19	\$0.34
<b>Total Costs</b>	<b>\$0.64</b>	<b>\$1.03</b>
<b>Net Operating Income</b>	<b>\$0.09</b>	<b>\$0.42</b>

# MOVIE THEATER – DEVELOPMENT METRICS

Measure	Single Screen (m)	Double Screen (m)
Development Cost	\$16.1	\$14.2
Tax Credits	\$1.4	\$0.0
Net Operating Income	\$0.1	\$0.4
Cash Flow	-\$0.5	-\$0.2
Implied Value of Building (10%)	\$1.0	\$4.2
<b>Net Present Value (12%)</b>	<b>-\$8.3</b>	<b>-\$5.4</b>
<b>IRR (Return)</b>	<b>None</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$12.8</b>	<b>-\$10.0</b>

***Conclusion: Movie Theater is not a feasible reuse scenario***

*NOI, cash flow and implied value are all based on first operating year. Fit out is not included in the net value of the project*

# PERFORMANCE – DESCRIPTION AND MARKET CONSIDERATIONS

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- Flexible seating
  - 600 with chairs only
  - 175 with round tables
- Limited types of performances
  - Small stage size
  - Lack of fly tower
- Two current theaters with financial difficulties:
  - Prince Music Theater
  - Suzanne Roberts Theater

# PERFORMANCE— OPERATING MODEL

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<b>Operating Revenue</b>	<b>Performance</b>
Ticket	\$2.81
Ticket Surcharge	\$0.22
Other	\$0.30
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Total Revenue	\$3.33
<b>Operating Expenses</b>	
Artist Fee	\$1.65
Marketing	\$0.24
Other Expenses	\$1.03
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Total Costs	\$2.92
<b>Net Operating Income</b>	<b>\$0.41</b>

# PERFORMANCE – DEVELOPMENT METRICS

Measure	Performance (m)
Development Cost	\$13.9
Tax Credits	\$2.4
Net Operating Income	\$0.4
Cash Flow	-\$0.1
Implied Value of Building (10%)	\$4.1
<b>Net Present Value (12%)</b>	<b>-\$4.4</b>
<b>IRR (Return)</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$7.4</b>

**Conclusion: Live Performance Venue is not a feasible reuse scenario**

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# RESIDENTIAL – DESCRIPTION AND MARKET CONSIDERATIONS

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- Royal is situated an ideal residential neighborhood
- Residential units in the neighborhood average 1,274 SF and \$20.74 per SF in yearly rent
- Residential space would occupy all three floors accounting for 23,000 SF, 22 units in total
- A fully rehabed Royal is estimated to attract yearly rents of \$21 per SF

# RESIDENTIAL – NEARBY RENTS 1

Location	Monthly Rent	SF	Monthly Rent/SF	Yearly Rent/SF
1500 South Street	\$2,106	4,818	\$0.44	\$5.25
746 S 15th St #3	\$1,350	1,689	\$0.80	\$9.59
708 S 20th Street	\$1,695	2,090	\$0.81	\$9.73
2020 South Street	\$1,250	1,500	\$0.83	\$10.00
766 S 18th Street	\$2,195	2,568	\$0.85	\$10.26
746 S 19th Street	\$1,600	1,734	\$0.92	\$11.07
1522 South Street	\$1,872	1,874	\$1.00	\$11.99
901 S 16th street	\$2,700	2,560	\$1.05	\$12.66
1604 Catherine Street	\$2,100	1,692	\$1.24	\$14.89
762 S 16th Street	\$1,500	1,140	\$1.32	\$15.79
2045 Christian Street	\$998	700	\$1.43	\$17.11
2031 Fitzwater	\$1,800	1,250	\$1.44	\$17.28
1620 Bainbridge Street	\$5,500	3,800	\$1.45	\$17.37
1701 Christian Street	\$750	500	\$1.50	\$18.00
1828 Fitzwater Street	\$2,400	1,536	\$1.56	\$18.75
533 S 17th Street #2F	\$1,895	1,200	\$1.58	\$18.95
1642 South Street	\$2,250	1,400	\$1.61	\$19.29
729 S 16th Street	\$1,050	650	\$1.62	\$19.38
2006 Fitzwater Street	\$3,300	2,000	\$1.65	\$19.80
513 S 17th Street	\$850	500	\$1.70	\$20.40
917 S 16th Street	\$1,050	600	\$1.75	\$21.00

# RESIDENTIAL – NEARBY RENTS 2

Location	Monthly Rent	SF	Monthly Rent/SF	Yearly Rent/SF
1909 Fitzwater	\$1,800	1,000	\$1.80	\$21.60
1737 Webster Street	\$2,095	1,120	\$1.87	\$22.45
1912 Bainbridge Street	\$1,700	900	\$1.89	\$22.67
1729 Christian Street	\$1,450	760	\$1.91	\$22.89
715 Hicks Street	\$1,950	960	\$2.03	\$24.38
1611 Bainbridge Street	\$1,850	900	\$2.06	\$24.67
2006 South Street	\$1,850	900	\$2.06	\$24.67
1917 Christian Street #B	\$1,250	600	\$2.08	\$25.00
2112 South Street #205	\$1,725	790	\$2.18	\$26.20
705 S 20th Street	\$2,195	1,000	\$2.20	\$26.34
1526 Webster Street	\$1,995	900	\$2.22	\$26.60
729 S 16th Street	\$725	325	\$2.23	\$26.77
713 S 17th Street	\$1,500	600	\$2.50	\$30.00
1514 South Street	\$1,657	653	\$2.54	\$30.45
2018 Christian Street	\$900	340	\$2.65	\$31.76
1430 Lombard	\$1,325	500	\$2.65	\$31.80
1430 Lombard	\$1,500	350	\$4.29	\$51.43
<b>Average</b>	<b>\$1,781</b>	<b>1,274</b>	<b>\$1.73</b>	<b>\$20.74</b>



# RESIDENTIAL– OPERATING MODEL

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<b>Operating Revenue</b>	Performance
Rent (\$21 / SF)	\$0.48
Vacancy	(\$0.02)
Other	\$0.00
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Total Revenue	\$0.46
<b>Operating Expenses</b>	
Maintenance	\$0.15
Utilities	\$0.00
Other Expenses	\$0.00
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Total Costs	\$0.15
<b>Net Operating Income</b>	<b>\$0.31</b>

# RESIDENTIAL – DEVELOPMENT METRICS

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Measure	Performance (m)
Development Cost	\$12.6
Tax Credits	\$0.0
Net Operating Income	\$0.3
Cash Flow	-\$0.2
Implied Value of Building (7%)	\$4.5
<b>Net Present Value (12%)</b>	<b>-\$5.4</b>
<b>IRR (Return)</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$8.1</b>

***Conclusion: Residential is not a feasible reuse scenario***

*NOI, cash flow and implied value are all based on first operating year. Fit out is not included in the net value of the project*

## RETAIL / RESIDENTIAL – DESCRIPTION AND MARKET CONSIDERATIONS

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- A mixed-use retail and residential scenario
  - Retail: 8,000 SF at \$25 / SF
  - Residential: 8,000 SF at \$21 / SF
- One floor of residential due to ceiling height required for retail

# RETAIL / RESIDENTIAL— OPERATING MODEL

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<b>Operating Revenue</b>	Performance
Rent	\$0.37
Vacancy	(\$0.02)
Other	\$0.00
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Total Revenue	\$0.35

<b>Operating Expenses</b>	
Maintenance	\$0.06
Administrative and Overhead	\$0.01
Other Expenses	\$0.00
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Total Costs	\$0.07

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<b>Net Operating Income</b>	<b>\$0.28</b>
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# RETAIL / RESIDENTIAL – DEVELOPMENT METRICS

Measure	Performance (m)
Development Cost	\$12.2
Tax Credits	\$0.0
Net Operating Income	\$0.3
Cash Flow	-\$0.2
Implied Value of Building (7%)	\$4.1
<b>Net Present Value (12%)</b>	<b>-\$5.4</b>
<b>IRR (Return)</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$8.1</b>

***Conclusion: Retail / Residential mixed-use is not a feasible reuse scenario***

*NOI, cash flow and implied value are all based on first operating year. Fit out is not included in the net value of the project*

## RETAIL / COMMERCIAL – DESCRIPTION AND MARKET CONSIDERATIONS

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- A mixed-use retail and residential scenario
  - Retail: 8,000 SF at \$25 / SF
  - Commercial: 9,000 SF at \$23 / SF
- One floor of commercial due to ceiling height required for retail
- South Street lies outside of the main commercial district

# RETAIL / COMMERCIAL– OPERATING MODEL

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<b>Operating Revenue</b>	Performance
Rent	\$0.38
Vacancy	(\$0.02)
Other	\$0.00
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Total Revenue	\$0.36

<b>Operating Expenses</b>	
Maintenance	\$0.06
Administrative and Overhead	\$0.01
Other Expenses	\$0.00
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Total Costs	\$0.07

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<b>Net Operating Income</b>	<b>\$0.29</b>
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# RETAIL / COMMERCIAL – DEVELOPMENT METRICS

Measure	Performance (m)
Development Cost	\$11.7
Tax Credits	\$0.0
Net Operating Income	\$0.3
Cash Flow	-\$0.2
Implied Value of Building (7%)	\$4.2
<b>Net Present Value (12%)</b>	<b>-\$5.0</b>
<b>IRR (Return)</b>	<b>None</b>
<b>Net Value of Project</b>	<b>-\$7.5</b>

***Conclusion: Retail / Commercial mixed-use is not a feasible reuse scenario***

*NOI, cash flow and implied value are all based on first operating year. Fit out is not included in the net value of the project*



# SUMMARY

	Retail	Single Screen	Multi- Screen	Live Shows	Residential	Retail / Residential	Retail / Commercial
Total Cost	\$11.0	\$15.2	\$12.7	\$13.9	\$12.6	\$11.7	\$11.2
Less Subsidy	-\$2.1	-\$2.4	\$0.0	-\$2.4	\$0.0	\$0.0	\$0.0
<b>Remaining Cost</b>	<b>\$8.9</b>	<b>\$12.7</b>	<b>\$12.7</b>	<b>\$11.5</b>	<b>\$12.6</b>	<b>\$11.7</b>	<b>\$11.2</b>
NOI	\$0.2	\$0.1	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3
Cap Rate	7.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%
<b>Value of finished project</b>	<b>\$2.8</b>	<b>\$1.0</b>	<b>\$4.2</b>	<b>\$4.1</b>	<b>\$4.5</b>	<b>\$4.1</b>	<b>\$4.2</b>
<b>Net value of project</b>	<b>(\$6.6)</b>	<b>(\$12.8)</b>	<b>(\$10.0)</b>	<b>(\$7.4)</b>	<b>(\$8.1)</b>	<b>(\$8.1)</b>	<b>(\$7.5)</b>

# CONCLUSION

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There is no use to which the Royal Theater may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses.