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January 16, 2014

Jonathan E. Farnham, Ph.D.
Executive Director
Philadelphia Historical Commission
Room 576, City Hall
Philadelphia, PA 19107

Dear Dr. Farnham:

In accordance with our engagement letter, Real Estate Strategies, Inc. (“RES”) has prepared this letter report summarizing the findings of our analysis of a financial hardship application submitted to the Philadelphia Historical Commission (the “Commission”). The application by Live Nation Worldwide, Inc. (“Live Nation”) and iPic-Gold Class Entertainment, LLC (“iPic”) (together, the “Applicants”) proposes the partial demolition of the historic Boyd Theater located at 1910 Chestnut Street in Philadelphia, Pennsylvania (the “Boyd” or the “Property”). The building was placed on the Philadelphia Register of Historic Places on August 8, 2008.

The following paragraphs provide background information in connection with the financial hardship application, our assignment, a summary of our findings and conclusions, and the procedures and analyses that were the basis of the findings and conclusions by RES. The standard terms and conditions applicable to our work with the Commission are also included.

BACKGROUND

The Commission has received an application from Live Nation and iPic, which are for-profit entities, requesting approval to demolish a portion of the Boyd, a historic building located at 1910 Chestnut Street, Philadelphia, Pennsylvania. The submission by the Applicants contains an Affidavit and Exhibits that include supporting documentation pursuant to the financial hardship provisions of the Philadelphia Historical Commission Rules and

Regulations. The Applicants are seeking approval to demolish the rear portion of the existing structure and to replace it with a new eight-screen movie theater.

The existing structure was constructed in 1928 as a single-screen movie theater with approximately 2,500 seats and a small stage that could accommodate vaudeville acts but not major theatrical productions. The theater is constructed in an L-shape configuration with the Art Deco façade, marquee and entrance on Chestnut Street (the “Chestnut Street Wing”) and the main auditorium (the “Auditorium Wing”) at a perpendicular angle situated south and west of the Chestnut Street Wing and having frontage along Sansom Street. The Boyd is Philadelphia’s last remaining intact movie palace from the 1920’s. In addition to the historic Art Deco façade, the major historical significance of the Boyd results from the building’s representation of the time when grand movie theaters lined Chestnut and Market Streets. The Boyd was one of the largest of these movie theaters. All of the other movie theaters from this time have either been demolished or substantially reconfigured, removing most of the historical attributes of their former use. Although it is in very poor condition at this time, the Boyd still retains many of the historic details from its origin as a grand movie palace.

If the financial hardship application is approved, the southern portion of the Chestnut Street Wing and all of the Auditorium Wing will be demolished. The portion of the Chestnut Street Wing containing the Art Deco historic façade of the Boyd, including the head house facing Chestnut Street, would be preserved and renovated.

The Affidavit seeks a determination of financial hardship because of the “building ownership’s demonstrated inability to sell the property to an end user who would restore the building, the absence of sufficient private and public funding for an adaptive re-use scheme and the comparatively low level of revenue that could be generated by such an adaptive re-use...”

The last use of the Boyd was as a movie theater. In addition to the main theater in the Auditorium Wing, three additional smaller theaters had been developed in the adjacent building located at 1912 to 1918 Chestnut Street and now occupied by a Gap Outlet Store. The Boyd was closed in May 2002. At that time, the Property and the adjacent building were owned by Chestnut Theater Associates LP, an entity controlled by Goldenberg Development Corporation (“Goldenberg”). On March 31, 2005, the Boyd Theater (but not the building at 1912 to 1918 Chestnut Street) was acquired by Boyd Development, LP, an entity controlled initially by Clear Channel Entertainment (“Clear Channel”). Clear Channel had been working with Goldenberg commencing in September 2003 to restore the building. Also acquired by Clear Channel was an adjoining vacant property to the west of the Auditorium Wing (the “Adjoining Lot”) that provided additional access to Sansom Street and South 20th Street while also providing space for a potential expansion of the stage. Boyd Development LP subsequently became a subsidiary of Live Nation.

The Affidavit and supporting documentation outline a number of attempts to renovate and reuse the property with, and without additional development at the site. These include the following:

- From May 2002 to March 2003 Goldenberg explored several different strategies to redevelop the Boyd, including use as a venue for live concerts, a dinner theater with rentals for catered events, and as offices and classroom space for the Pennsylvania Ballet.
- A September 2003 announcement reported a partnership between Goldenberg and Clear Channel to restore the Boyd for use as a first-run, large-scale Broadway-touring production theater and cabaret venue. Through 2003 and 2004 Goldenberg attempted to obtain funding from public and private sources to renovate the building for this purpose. The requested public funds were not approved.
- On March 31, 2005 Goldenberg sold the Boyd to Boyd Development LP, initially a subsidiary of Clear Channel but owned by Live Nation since the spin-off of Clear Channel's entertainment division. Between March 2005 and 2006, Live Nation attempted to redevelop the building as a theater for touring Broadway shows, a use that would include construction of an addition on the Adjoining Lot to expand the stage area. However, Live Nation sold off its theatrical division and reportedly could not justify the estimated \$47.9 million in development costs associated with the renovation.
- Between August 2008 and January 2010, Hal Wheeler of ARCWheeler attempted to redevelop the property, preserving the Boyd and constructing a 28 story, 250-room hotel on the Adjoining Lot that would cantilever over the Auditorium Wing. The ARCWheeler development plan required subsidy funding, which Mr. Wheeler was attempting to secure when he passed away in January 2010.
- During 2010, Live Nation attempted to renovate the building into a 2,200 capacity standing general admission live entertainment venue for touring live music acts. The Affidavit states that "Live Nation could not justify the rehabilitation costs in light of the revenues". There was no information in the Affidavit regarding any such analysis conducted by Live Nation.
- Between January and April 2011, another group, 1910 Chestnut, LP attempted to redevelop the Boyd as part of a plan that included a theater, hotel, commercial space, condominiums or some combination of these uses. Reports from third parties indicate that the group was not able to finalize the development plan and secure investment partners.

In October 2012, Live Nation entered into an agreement of sale with International Finance Company ("IFC") operating as R Investment Nine, LP, to acquire the Boyd. R Investment Nine has entered into a ground lease with 30 West Pershing, LLC which, in turn, has entered into a sub ground lease with iPic. This current development entity, consisting of R Investment Nine as the project developer and owner and iPic as the tenant and operator, proposes to develop and operate the new eight screen movie theater on the Auditorium Wing site and on the Adjoining Lot.

ASSESSMENT METHODS

The Commission retained RES to analyze information supplied by the Applicants and to provide recommendations addressing the potential financial hardship. As a basis for our analysis, RES has performed the following tasks:

- Conducted a review of documentation supplied by the Historical Commission and the Applicants including the Affidavit, Exhibits, and other materials to gain an understanding of the basis for the requested financial hardship determination.
- Inspected the interior and exterior of the Boyd, the Adjoining Lot, and the surrounding area to understand the context in which potential redevelopment alternatives would operate if implemented.
- Met with representatives of the Applicants, the City of Philadelphia, the Preservation Alliance, Friends of the Boyd, private developers and other interested parties to obtain additional information and to gain a better perspective about the history of the Boyd and redevelopment options for the Property.
- Conducted telephone interviews with other private developers involved with the property, operators of performing arts venues, and other parties with specialized expertise related to potential uses of the Boyd to obtain additional information about market conditions influencing reuse alternatives and the potential financial viability of reuse alternatives.
- Analyzed supplemental information provided by representatives of the Applicants.
- Reviewed redevelopment alternatives that have been proposed and researched the development potential of the property for other potential uses that might be considered. Developed conclusions regarding the existence of a financial hardship and the compliance of the submission with requirements specified in the Philadelphia Historical Commission Rules and Regulations.

FINDINGS AND CONCLUSIONS

RES researched potential reuse strategies for the Property that were not addressed initially in the Affidavit and Exhibits, which provided analyses focused on only three reuse strategies as a Broadway-style theater, a multipurpose live entertainment venue, and a single-screen movie theater. Our research included a compilation of additional information related to the likely financial feasibility of alternative reuse strategies.

Summary of Findings

Interviews and analyses by RES have resulted in a determination that the redevelopment of the Boyd is not economically feasible without significant public subsidies. The uses considered have included the theater uses presented in the Affidavit and Exhibits, as well as retail and restaurant uses and a combination of restaurant and theater uses at the Property.

From a development perspective, the reuse potential of the Boyd is adversely affected by a number of factors. While the intensity of the effect on financial performance varies based on the use proposed, the following issues have some effect on all of the above-referenced uses.

- **Issues with the location of the property** - The Boyd has limited frontage on Chestnut Street, which is a main commercial corridor in Philadelphia. However, the 1900 block of Chestnut Street is not considered to be one of the City's prime locations commanding premium prices, a factor that is a major issue for potential retail, restaurant, and related commercial uses. Further, the Boyd does not have a corner location, an issue affecting the visibility of the Property.
- **Condition and Configuration of the Building** - Rehabilitation costs are high because of the deteriorated condition of the building and the need to replace all major systems. The volume of the interior space and limitations on the amount of useable space produce high operating expenses related to heating and cooling. The Auditorium Wing is large in size and has features such as a sloping floor and steep balcony that can be addressed, but also increase construction costs associated with alternative uses. With regard to theater-related uses other than as a single-screen movie theater, the stage must be expanded, which adds further to the development cost. When combined with the secondary location, all of these factors result in excessive costs and extensive risks associated with redeveloping the building.

The result is that the income generated by any of the potential new uses of the Boyd addressed herein, as measured by the Net Present Value of the income stream, is not sufficient to cover the costs associated with the rehabilitation of the Property and the ongoing expenses associated with maintenance and operations.

Our interviews and related research of renovations of historic movie theaters has indicated that virtually all are owned by non-profit organizations and are financed with substantial government and philanthropic subsidies. Subsidies have been especially important when the structures required the level of rehabilitation essential for reuse of the Boyd. Moreover, even with subsidies to cover rehabilitation costs, former movie theaters that have been converted to performing arts venues often have operating deficits and must rely on contributions during fundraising campaigns to pay costs of ongoing operations.

A recent and comparable example identified by RES is the redevelopment of the Queen Theater in Wilmington, Delaware, now home to Wilmington's World Café Live. A large percentage of the \$25 million in construction costs to renovate the historic theater was provided by government and philanthropic sources. Despite the large subsidies and the extensive programming by an experienced operator, the Queen Theater has not yet shown a profit from operations, although the owners hope the theater will be profitable in the coming year. Unlike the Boyd, the Queen Theater had a willing owner/developer who was interested in redeveloping the building as part of a larger revitalization effort in this part of the City.

RES's interviews identified one entity, 1910 Chestnut LP that had control of the Property during 2011 and has continued to claim to have an economically feasible reuse strategy for the Boyd. Preliminary plans for restaurant and theater reuse were shown and discussed with RES, and we had an opportunity to interview one of the principals. However, the individual did not provide his name and declined to share any information or analysis to substantiate the contention that the uses proposed were financially feasible. Furthermore, the individual stated during the telephone conversation that any current redevelopment of the Boyd would more than likely entail additional development in the form of a high-rise building on the Adjoining Lot and the air rights over the Auditorium to make the project financially feasible. Based on the lack of information to support the contention that there is an economically feasible plan, together with independent analyses by RES that are summarized below, we have no evidence to support the contention that the proposed reuse is financially feasible.

REUSE ALTERNATIVES ANALYZED BY RES

RES reviewed the information supplied in the Affidavit and supporting documentation in the Exhibits, as well as the supplemental information supplied by the Applicants to assess the economic viability of the various proposed reuse strategies for the Boyd. Our review focused on the findings in the report prepared by Econsult Solutions (the "Econsult Report"), which provided an assessment of the following uses: (1) Broadway-style theater; (2) multipurpose live entertainment venue; and, (3) single-screen movie theater. A supplemental letter report prepared by Econsult, and provided to RES for review, assessed the financial feasibility of potential conversion of the Boyd for retail use or a combination of a restaurant and single-screen movie theater. The review and analysis by RES included an assessment of the analysis methods in the Econsult Report and a testing of key assumptions.

The following summarizes our findings related to each use.

Broadway-Style Theater

RES tested key assumptions used in the Econsult Report to determine whether this reuse could result in an economically feasible endeavor. Redeveloping the Boyd as a Broadway-style theater generated the highest income of the three scenarios in the initial Econsult Report and the two reuse scenarios addressed in the supplemental letter report. RES

tested the key assumptions under the Broadway-style theater scenario first because, absent positive results on this potential use with the highest income from operations, the other potential uses were not likely to be financially feasible. The following summarizes key assumptions tested and our findings.

- Econsult used construction costs of \$37.7 million and a total development cost of \$51.9 million in their analysis. These costs are based on 2005 cost estimates produced by Intech Contractors and Construction Managers. RES views the construction costs as conservative because the Intech estimate is the lower of two bids received at that time by the owners of the Boyd. Also, the costs are based on building conditions during 2005 and the building has deteriorated since this time.

Despite our opinion that these costs are conservative, RES tested the assumption that the costs might be inflated by analyzing the effect of a 20 percent reduction in construction costs and also assuming that the purchase price of the building is the current sales price of \$4.5 million in the agreement of sale rather than the 2008 appraised value of \$6.6 million. This analysis resulted in total construction costs estimated to be \$30.2 million and a total development cost of \$39.3 million. The analysis produced a Net Present Value of -\$1.6 million. Therefore, based on a reduction in development costs this potential reuse is not financially feasible.

- RES next reviewed the operating assumptions for the Broadway-style theater used in the Econsult Report to determine whether the assumptions are realistic. Econsult assumed the Boyd would perform as well as the Academy of Music (which is owned and programmed by the Kimmel Center). Econsult did not take into account any negative effects, that might result from the opening of a new performing arts theater, on all other performing arts theaters in Philadelphia, nor how the Boyd would compete for touring shows with other local theaters. A review of bookings from October 2013 to June 2014 at the local theaters in Philadelphia that would compete with the Boyd (the Academy of Music, The Forrest Theater, the Merriam Theater and the Walnut Street Theater) indicates a current shortage of programming to sustain all of the existing theaters. With the exception of the Forrest Theater, all of the theaters are currently programmed the majority of the time. Programming at the Academy of Music and the Merriam Theater includes programs of the Pennsylvania Ballet and the Philadelphia Opera Company, which are resident companies at these venues. The Forrest Theater seems to be programmed for only four weeks in December during the time frame from October 2013 through June 2014; the next performance at the Forrest Theater is in July 2014.

Since one of the more established Philadelphia theaters (the Forrest) seems to be dark for a portion of the theater season, RES has concluded that the assumptions based on the Academy of Music and applied to the Boyd in the Econsult Report are generous. Nevertheless, RES tested the operating assumptions by assuming that operating revenues and corresponding operating expenses would be ten percent higher than the Econsult projections. RES again assumed that the purchase price of the building would be \$4.5 million. Under this more optimistic scenario, the project generates a Net

Present Value of -\$2.9 million. Increasing the revenues and expenses by 20 percent still produces a negative Net Present Value (-\$272,100).

- RES next analyzed the potential for an allocation of New Markets Tax Credits (“NMTCs”) in addition to Historic Preservation Tax Credits to be used for a portion of the financing for the renovation. NMTCs are a discretionary source of funds for a development project and are usually made available for projects providing strong benefits to low-income households living in distressed communities. Eligibility determinations for NMTCs are made by the U.S. Treasury Department, which administers NMTCs and determines eligibility based on data for census tracts. While the data can change over time, the Boyd presently is located in a census tract listed as eligible. In addition, RES received information from a local Community Development Entity (“CDE”) with a current allocation of NMTCs that there would be strong interest in providing a NMTC allocation to a development project involving the restoration of the Boyd.

Based on development costs, the Boyd could conceivably be eligible for credits up to \$45.0 million; however, it is unlikely that one project, and especially a theater renovation project, could secure this large amount of NMTCs. Based on our research of recent allocations, a large - but possible - allocation of credits would be \$10.0 million; an amount that is still very large and would probably necessitate allocations from more than one CDE. RES assumed an allocation to the Boyd of \$10 million and, consistent with the program’s current statistics, net funding to the project of \$.27 for each dollar of allocated NMTC. The net funding to NMTC projects fluctuates based on market conditions for the syndication of NMTCs, but the typical range is from \$.25 to \$.29 for the project from every dollar allocated. Assuming \$.27 to the project, a \$10 million NMTC allocation would provide an additional \$2.7 million of funds, which RES assumed would be used to lower the required equity contribution. Despite the infusion of this additional capital, the operations of the Boyd would produce a Net Present Value of -\$4.6 million. If the acquisition price is reduced to the current purchase price of \$4.5 million, the project still has a negative Net Present Value (-\$2.7 million).

Therefore, RES has concluded that the Broadway-style theater reuse of the Boyd is not financially feasible, the conclusion in the Econsult Report provided as an Exhibit to the Affidavit. This reuse is not financially feasible even with a reduction in construction costs and acquisition price, an increase in operating revenues and expenses, or an infusion of New Markets Tax Credits.

Multipurpose Live Entertainment Venue and Single-Screen Movie Theater

The initial Econsult report also provided financial analyses of two other potential theater-related uses of the Boyd, which are as a multipurpose live entertainment venue and as a single-screen movie theater. The above sensitivity analyses by RES tested the returns generated by the Boyd as a Broadway-style theater because this reuse had the greatest

economic potential of the three theater scenarios in the Econsult Report. Since this reuse produced negative Net Present Values on each of the analyses, RES has concluded that these other theater-related uses that have less economic potential also would produce negative Net Present Values, and that these uses would be even less financially feasible for a developer or owner of the Property.

Retail Use and Combined Restaurant and Single-Screen Movie Theater

RES reviewed supplemental letter report prepared by Econsult to address these additional potential uses and we prepared sensitivity analyses to ascertain whether more favorable assumptions would yield a financially feasible reuse of the Boyd. The sensitivity analyses were similar to those prepared for the Broadway-style theater in that we assumed lower construction costs, higher revenue, a lower acquisition cost, or a potential NMTC allocation. Under each analysis, redevelopment of the Boyd was not a profitable venture because the cash flows indicated negative Net Present Values.

RES also estimated the amount of rent required, based on an assumption that the rent would be net of utilities, taxes, insurance and common area expenses (a so-called "Triple-Net" rent), that would be needed to produce a profitable project, as measured by a positive Net Present Value. Our analysis determined that the Boyd would need to secure a long-term tenant paying a triple-net rent of \$120 per square foot for the project to be economically feasible. Nordstrom Rack is paying \$50 per square foot, triple-net, for space in a corner building located at 1700 Chestnut Street, which is a more desirable location for retailers. The building was designed for occupancy by a retail store; the original occupant was Bonwit Teller.

RES also has analyzed rents for other retail and restaurant properties with locations and configurations generally superior to the Boyd, and we have reviewed rent information compiled by Econsult. We have concluded that it is unlikely the Boyd would be able to command the rent of \$120 per square foot, triple-net, that would be required for an economically feasible retail or restaurant use at the Property.

TERMS AND CONDITIONS

Except as specifically provided herein, RES has not ascertained the legal and regulatory requirements that might be applicable to the property or in the case of a potential redevelopment. This letter report is based on estimates, assumptions and other information developed from research of the market, our knowledge of the real estate industry and other factors, including information provided by the Philadelphia Historical Commission. The sources of information and bases of the estimates and assumptions are stated in our letter report. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results will vary from those described in our report, and the variations may be material.

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Further, RES has not evaluated management's effectiveness nor are we responsible for future marketing efforts and other management actions upon which actual results will depend. Our report is intended for use by the Philadelphia Historical Commission in evaluating the financial hardship application and supporting documentation for the historic property at 1910 Chestnut Street in Philadelphia. We have no responsibility to update our report to account for events and circumstances occurring after our fieldwork has been completed which is the date of this report.

If you have any questions or would like to discuss our findings, please call me at (610) 240-0820.

Very truly yours,

A handwritten signature in cursive script that reads "Margaret B. Sowell".

Margaret B. Sowell, CRE
President