[EXT]Shea Homes- Monarch Dunes: Phase Three Proposal / BOS Meeting website "Correspondence Received" attachment

Brian Kaub <brian.kaub@gmail.com>

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To: District 4 <district4@co.slo.ca.us>
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1 attachments (26 KB)

Trilogy Phase 3 - 3 minute speech to SLO BOS-080821-Draft 5-CLEAN COPY.docx;

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Caleb,

This letter is regarding the Shea Homes Trilogy Monarch Dunes Phase Three Proposal, shown as Item #50 on the SLO BOS 8/10/21 Agenda. I am a Trilogy homeowner who has concerns about Shea's proposal. I am coordinating with Bob Kraiss and Bill Batty, and want to make a three minute public presentation after them. We understand the Supervisors will review the proposal 1:30pm on 8/10/21. I understand the Board Chambers are on the first floor of the County Govt. Center. Once inside the chambers, I will fill out a speak slip and submit it to the Clerk of the Board.
The submitted Phase Three is not achievable and will require multiple changes over the next 10 years. We would like a plan that is achievable within the next 3 years and not require multiple revisions. Our request is that the Supervisors direct Shea Homes to work with the Trilogy Homeowners to develop an achievable Phase Three, revise the proposal and resubmit.

My three minute presentation is attached, plus additional backup calculations and details that justify my comments(due to three minute time limits they will not be spoken). I am requesting that you post my attachment on the BOS Meeting website as "Correspondence Received" attachments.

Thank You,

Brian Kaub

Three-minute Presentation delivered 8/10/21 at the SLO County Board of Supervisor's Meeting regarding Item #50: Submittal of a request to authorize processing of a Specific Plan Amendment application (LRP2021-00003) by Monarch Dunes LLC to amend the Woodlands Specific Plan

Good afternoon,

My name is Brian Kaub. I am a Registered Civil Engineer, with 38 years of Heavy Construction experience. I have spent 24 years as the Vice President of two National Contractors with annual Revenues over $3 Billion each.

I am a Trilogy Homeowner since 2013. I have seen Shea Homes take advantage of Trilogy homeowners many times. In my opinion, ONE THING motivates Shea Homes, that is MAXIMIZING PROFIT. Shea is proposing 122 duplex units and 40 condos for a total of 162 units above the approved 1,320 units. This is a 12% increase in use for our common area amenities. Most of our current amenities are beyond capacity, so we must expand them for Phase 3.

In phase 3, I have prepared conservative estimates that Shea's current proposal will generate about $35M in profit for Shea. Backup calculations have been forwarded to the BOS. Shea gave presentations to Trilogy homeowners, to try to motivate us to accept their proposal. They offered the homeowners $1.8M for expansions for amenities, such as dog park, pool, fitness center, pickle ball or other items. Shea was only willing to share $1.8M out of $35M which equals 5% of their profit.

Regarding the survey that was sent to 1,690 Trilogy homeowners, 294 responses were received. To the question "Which of the following best approximates an appropriate Shea amenity funding level?" 86% replied between $10-17M, of those, the average was $13.5M compared to Shea's offer of $1.8M.

Shea should be willing to share 50% of their profit with the homeowners. For the current proposal, this would be about $17.5M. This should be an adequate amount for the needed amenities, plus maintenance and operation funds. Note that Shea's 50%, still provides Shea 184% of their original Phase 3 profit of $9.5M. In other words, this is a WIN-WIN.

Shea has used every opportunity in their proposal to Shea's advantage. There is no room left for needed homeowner amenities, adequate parks, or parking. If the hotel, half of the commercial businesses and the 40 condos are deleted, and 7 houses are added instead of the hotel, Shea's profit would be reduced to about $28M. If the homeowners receive 50%, that would be $14M, which should be an adequate amount.

You have heard several serious issues with Shea's Phase 3 proposal that MUST be fixed. In addition, please do not allow this proposal to proceed without adequate planning for homeowner amenities. Please support 1300 SLO County taxpayers at Trilogy, by requiring Shea to show all amenities mutually agreed with the homeowners on their Phase 3 proposal.

Thank you,

Brian Kaub

APPENDIX (These backup details not discussed at the 8/10/21 meeting)

A. Original Phase 3 Profit (8/10/21 presentation):

Here is rough estimate using current California construction costs (including Trilogy current housing costs).

1. **122 Duplex Units (61 buildings): 23% margin x $675,000/unit x 122 units = $18.9M**
2. **50 Duplex units with a "View Lot Premium"(on the resort property after additional sand fill (to slope the hill towards ocean) has been added): 100% margin x average $100,000/unit x 50 units = $5.0M**
3. **40 condos (700-1400SF): 23% margin x ($435/SF x 700-1400SF=) $450,000/unit x 40 units = $4.1M**
4. **97 Room Hotel x 375 SF/unit (+ 7% for support rooms) = 40,000 SF: 23% margin x $400/SF x 40,000 SF = $3.7M**
5. **Village Commercial Buildings: 23% margin x $350/SF x 41,680 SF = $3.4M**

Total Estimated Phase 3 Shea Profit = $35.1M (USE $35M) 50/50 sharing = $17.5M each

B. Revised Phase 3 Profit (Delete hotel, delete 50% of Commercial, delete 100% of condos, Add 7 houses, 4 houses with "View Lot Premium" in proposed hotel location):

Here is rough estimate using current California construction costs (including Trilogy current housing costs).

1. **122 Duplex Units (61 buildings): 23% margin x $675,000/unit x 122 units = $18.9M**
2. **50 Duplex units with a "View Lot Premium" (on the resort property after additional sand fill (to slope the hill towards ocean) has been added): 100% margin x average $100,000/unit x 50 units = $5.0M**
3. ~~**40 condos (700-1400SF): 23% margin x ($435/SF x 700-1400SF=) $450,000/unit x 40 units = $4.1M**~~
4. ~~**97 Room Hotel x 375 SF/unit (+ 7% for support rooms) = 40,000 SF: 23% margin x $400/SF x 40,000 SF = $3.7M**~~
5. **Village Commercial Buildings: 23% margin x $350/SF x 41,680 SF x 50%= $1.7M**
6. **Add 7 houses in location of proposed hotel: 23% margin x 7 units x $900,000/unit = $1.4M**
7. **Add 4 "View Lot Premium" in location of proposed hotel: 100% margin x 4 units x $150,000/unit= $0.6M**

Total Estimated Phase 3 Shea Profit = $27.6M (USE $28M) 50/50 sharing = $14M each

Executive Summary (Email sent to Trilogy HOA Board on 6/26/21):

1. **We have obtained Shea Home Financial Statements, submitted to the SEC, that show their average Gross Profit Margin for Trilogy Monarch Dunes is 23%. This is much higher than our previous conservative estimate of 15%. We have used the 23% profit and revised our previous 2/8/21 and 2/9/21 emails below. Bottom Line: Shea's Phase 3 profit should be $33.8M. Shea's total Monarch Dunes project profit should be $287M.**

2. **Shea's ORIGINAL Phase 3 profit is estimated at $9.5M. A reasonable amount that Shea should agree to is sharing 50% of Phase 3 profit (= 33.8 x 50%=) $16.9M. If Shea agrees to $16.9M, they should still make $16.9M profit. Shea will still be making 178% of their**

original Phase 3 profit with the HOA, even after they share $16.9M with the HOA. This is a WIN-WIN deal!

3. (Omitted for brevity)

4. The HOA will be responsible for maintaining all new Phase 3 amenities that are provided by Shea. We understand that the HOA Board is gathering operating information on the cost of maintaining new amenities. This analysis should be used to determine which amenities to build, and allowing appropriate funds for future maintenance, however, it may take significant time to complete. We do not need to complete this analysis to negotiate a 50/50 shared profit deal with Shea NOW.

5. In a review of Shea's proposed Phase 3 parking plan, it appears that Shea is not complying with SLO County parking design codes. The HOA Board should motivate Shea to review the codes NOW and verify details that show that their Phase 3 plan meets the SLO codes and is NOT using existing Trilogy CLUB parking spaces (West of Via Concha). The need of a hotel has been questioned by many residents, and many expect that it will not be economically viable, and would be bankrupt in a couple years. This would become a burden for the HOA. Let's delete the hotel nightmare. A much better use of this "hotel land" is to use it to provide the missing parking spaces and HOA Phase 3 amenities. Phase 3 Parking spaces should NOT be part of the HOA amenities cost, rather Shea's costs in Phase 3, as parking has never been adequate at Trilogy Monarch Dunes.

6. (Omitted for brevity)

Further Details:

There are 2 attachments for the "Further Details" section of this email.

Regarding Executive Summary Item 1 above, attached is a sheet showing Gross Profit from the SHEA HOMES SEC Filings / 2017 – 2019 Financial Reports.

The complete reports can be found at this WEB LINK: Investor Relations | Shea Homes

1. Press the "I ACCEPT" button
2. Open the TAB titled: SEC Filings / Financial Reports
3. Open the "SHLP Consolidated Financial Statements Full Year XXXX" for the year desired

Since Trilogy Monarch Dunes is located in Northern California, we adjusted the National USA data to reveal the local Trilogy Monarch Dunes area gross margin data. See attached EXCEL spreadsheet. The bottom line is that Shea Homes has an average 23.4% gross profit for years 2017-2019.

We have revised the following paragraphs from our previous emails below, using the revised 23% Gross Profit Margin that we found in the SHEA HOMES SEC Filings / 2017 – 2019 Financial Reports. Revisions are shown in YELLOW HIGHLIGHTING. See below:

2/8/21 email revision:

The estimated profit margin of 23% is a CONSERVATIVE estimate, based on Shea Homes LP 10K financial statement reports (years 2017-2019), and can easily be higher depending on the original

price of the land (minimal community facility improvements (water / wastewater, etc.) should be needed for Phase 3).

Here is my rough estimate using current California construction costs(including Trilogy current housing costs).

1. **120 Duplex Units (60 buildings): 23% margin x $675,000/unit x 120 units = $18.6M**
2. **50 Duplex units with a "View Lot Premium"(on the resort property after additional sand fill (to slope the hill towards ocean) has been added): 100% margin x average $100,000/unit x 50 units = $5.0M**
3. **40 condos (700-1400SF): 23% margin x ($435/SF x 700-1400SF=) $450,000/unit x 40 units = $4.1M**
4. **97 Room Hotel x 375 SF/unit (+ 7% for support rooms) = 40,000 SF: 23% margin x $400/SF x 40,000 SF = $3.7M**
5. **Village Commercial Buildings: 23% margin x $350/SF x 30,000 SF = $2.4M**

Total Estimated Phase 3 Shea Profit = $33.8M

This $33.8M is MUCH higher than Shea ever planned, as they would make less than normal profit for the 500 room hotel(very difficult to find a hotel operator), and NO profit from the previously proposed school area. Estimate they could have made $3M profit from the 500 room hotel. Adding items 3 and 5 above, this totals ($3 + 4.1 + 2.4 =) $9.5M ORIGINAL profit.

Shea's initial donation to the HOA = $1.86M / 33.8M = 5.5% of profit

A reasonable amount that Shea could easily offer to the HOA is 50% of profit = $16.9M

If Shea offers $16.9M, they should still make ($33.8 – 16.9 =) $16.9M profit.

Compare this to their ORIGINAL profit of $9.5M.

VERY IMPORTANT: Shea will still be making 178% of their original profit, even after they share $16.9M with the HOA.

2/9/21 email revision:

Let's assume our original Trilogy amenities cost $25M.

The rough revenue of house sales in Trilogy for 1340 houses is 1340 x $800,000 = $1.072B.

Add the town houses: Est. 60 x $400,000 = $24M

Total of $1.096B = Round to $1.1B revenue

$25M / $1.1B = 2.27% for amenities (which is part of COST, not profit). Sounds low to me!!

This equates to $800,000 x 0.0227 = $18,181 per house. SAY $18,000 per house for amenities. Sounds cheap to me!!

The profit on that average $800,000 house is 23% = $184,000, total of 1340 x 184,000 = $247M

Add the town houses: Est. 60 x $400,000 x 23% = 6M

Total profit = $253M project profit (before Phase 3)

(SKIPPED 2 PARAGRAPHS HERE)

The issue is they will already be earning about $253M profit from Monarch Dunes.

See previous email to see Phase 3 should generate $33.8M in profit. Total profit = 253 + 33.8 = $286.8M

Now they want to add (33.8 – 1.8 =) $32.0M more(95% of Phase 3 profit), and ALLOW the HOA $1.8M(5% of Phase 3 profit).

SHEA will have a total of (253 + 32.0=) $323M (285/286.8=) 99.5% of PROJECT profit.

The HOA will get $1.8M (1.8/286.8=) 0.5% of PROJECT profit.

Does that sound fair to the HOA? This is a “WIN” for SHEA and a “LOSE” for the HOA.

Here is the “WIN-WIN” solution:

A MUCH MORE fair SHARE would be:

SHEA gets $269.9M (94% of project profit)

HOA gets $16.9M (6% of project profit)