SB Friedman
Development Advisors

S. B. Friedman & Company | 221 North LaSalle Street, Suite 820 | Chicago, IL 60601 | T (312) 424-4250 | F (312) 424-4262

# MEMORANDUM ADDENDUM

TO: Dan Moye, Economic Development Corporation of Kansas City, Missouri

FROM: Fran Lefor Rood, *SB Friedman Development Advisors*
Direct: (312) 424-4253; Email: frood@sbfriedman.com

DATE: February 21, 2017

**RE: Addendum to Preliminary Financial Review of the Three Light Development Project**



*SB Friedman Development Advisors (SB Friedman)* submitted a draft memorandum, dated December 27, 2016, to the Economic Development Corporation of Kansas City (the "EDC") summarizing our preliminary financial analysis of Three Light (the "Project"). The results of our initial review indicated that a requested tax abatement through the Planned Industrial Expansion Authority (PIEA), with a defined payment-in-lieu of taxes (PILOT), did not appear to be required and that two financial grants provided by the City of Kansas City (the "City") should be sufficient assistance for the Project to achieve viable rates of return.

Following review of *SB Friedman*'s draft memorandum, The Cordish Companies (the "Developer") submitted new Project assumptions and an updated pro forma for a secondary review. The following is a summary of changes to the original analysis and our conclusions and recommendations, based on the new information.

**PRO FORMA ADJUSTMENTS**

The Developer provided a revised pro forma, as well as the current rent roll and operating expense data for One Light, their first luxury apartment project, which opened in Quarter 4, 2015. The following alterations were made to the previous Project assumptions:

- **Apartment Rental Revenue.** The Developer previously assumed a monthly rent per square foot of $2.31 in 2020, based on the current average monthly rent of One Light ($2.04) and inflated by 3% annually. In the Developer's updated information, this 3% growth assumption was revised downward to 2%, yielding pro forma rents of $2.25 per square foot in 2020. The Developer did not provide any specific new data or third-party independent analysis to support this revised assumption; instead the Developer generally cited concerns surrounding increasing supply and competition with other luxury product in Downtown Kansas City, including its own projects, One Light and Two Light, the latter of which is currently under construction. One Light and Two Light are the largest new construction luxury residential rental developments downtown and will be the most directly competitive with the Project. One Light has achieved, and Two Light is expected to achieve, top-of-the-market rents with the Project anticipated to follow suit.

However, data from Axiometric Inc. shows that rents in the Downtown Kansas City submarket are currently increasing at approximately 3% per year, and are projected to grow by at least 3% annually through 2018. Other sources such as PricewaterhouseCoopers and Real Estate Research Corporation also show recent apartment rent growth above 3.0% annually. Given the lack of third-party data specific to this project (e.g., a market study), *SB Friedman* lacks specific information to challenge the Developer's suggested pro forma change; however, it is also possible that attained rents could exceed pro forma. For example, One Light has significantly exceeded pro forma revenue expectations. The third-party financial review of the One Light development conducted in 2013 on behalf of the EDC indicated pro forma rents of $1.50 per square foot per month; the development achieved approximately $2.00 per square foot per month upon opening in 2015.

- **Apartment Operating Expenses.** The Developer's pro forma includes nine apartment expense line items, of which six were adjusted from the originally submitted version. Replacement reserves, management expenses, and advertising remain unchanged. Total apartment operating expenses, net of property taxes, and parking garage expenses increased nearly 15.0% between pro forma iterations, rising from $5.36 to $6.34 per rentable square foot. The Developer noted that this change reflects One Light's current operations, for which the Developer submitted backup information. Assuming the Developer's 3% annual expense inflation, the Project would achieve approximately a 7% discount on per-unit annual operating expenses from One Light's first year of operations. The Developer has indicated this recognizes cost savings/efficiencies that would occur given that the Developer will own and manage three nearly identical completed projects within close proximity to one another. *SB Friedman* is unable to verify the level of efficiency that could be expected. It is unclear why the Developer's original pro forma included expense assumptions that were lower than the Developer's actual experience with One Light.

- **Revenue and Expense Escalation/Inflation Rates.** In the original Developer submittal, all revenues, including residential rental revenue and non-rent revenues, were previously inflating by 3.0% annually. In the new submittal, this assumption has been adjusted downward to 2.0% annual inflation, which the Developer stated is more reflective of the competitive market. As discussed above, no specific information was provided supporting the downward adjustment in the operating revenue escalation rate.

  Revenue and expense inflation were assumed to be equal in the Developer's initial submittal, thus defining the relationship between costs and income. However, the expense inflation in the updated pro forma remained at 3.0% despite the downward adjustment of revenue inflation. Escalating revenues at a rate below that of expense inflation is a conservative approach to evaluating project feasibility.

- **Absorption and Stabilization**. In the original pro forma, the Project did not achieve stabilized occupancy of 95% until Year 6; first reaching 93% occupancy in Year 3 and gradually absorbing the final vacant units over three years. The Developer updated this assumption so that the Project reaches an ongoing, stabilized occupancy of 93% in Year 3. The Developer indicated that this is due to the increasingly competitive luxury apartment market in Downtown Kansas City and the below-expected lease renewal rate it is currently experiencing at One Light. As previously stated, the Developer did not provide a market study for Three Light; however, the market study conducted in 2015 for Two Light indicates that there may be weak demand for residential rental product beyond that which is already in the development pipeline (the pipeline includes the completion of Two Light). One Light reached stabilized occupancy in under six months, demonstrating the latent demand for luxury apartments downtown in 2015, and other recent apartment projects in the Downtown Kansas City are achieving very high stabilized occupancy (97%+). It is unknown how occupancy rates will be impacted by new development coming online; however, this vacancy assumption appears to be especially conservative.

The industry standard occupancy rate for new product is 95% at stabilization with the understanding that if new product cannot reach a 95% stabilized occupancy, then the market may not be ready to support such a project and that financing the project may be challenging. Therefore, *SB Friedman* adjusted the Year 3 stabilization from 93% to 95%. If the Developer expects the Project to not reach 95% occupancy with reduced rent assumptions, then this is likely an indication that the luxury apartment market is softening and may not be able to support new product in the near-term.

- **Financing.** The Developer previously assumed an interest rate of 4.75% on the Project's permanent loan, which was adjusted upwards to 5.00% in the new submittal. This appears to be within the range of current interest rates; however, the Project is in the early stages of development and will not obtain financing until 2018, therefore the Project's actual financing terms are likely to change. The sizing of the permanent financing was also previously being calculated using a 1.2 debt coverage ratio. This has been increased to 1.3 in the second submittal, which is more in line with the existing financing market.



**FINANCING SOURCES**

As part of our supplemental review, the EDC requested that *SB Friedman* evaluate the Project with a reduced parking grant based on the terms of the Master Development Agreement (MDA) with the City of Kansas City. The MDA provides financial assistance for a residential parking ratio of 1.5 spaces per unit, or 450 spaces for the Project, at $27,472 per space, based on inflation, according to information from the EDC. This totals approximately $12.36 million in City assistance. The Developer previously requested a grant of approximately $14.85 million, or $29,700 per space for 500 spaces. Due to this adjustment to the parking grant and the Developer's financing assumptions, as outlined above, the Project sources have shifted, as presented in **Table 1**.

The Adjusted Budget and Sources continues to reflect a reduction in land acquisition costs from $5.0 million in the Developer's budget to $200,000, as described further in the initial memo.

**Table 1: Updated Preliminary Sources of Permanent Financing**

| Source | Original Developer Assumptions | New Developer Assumptions | New Assumptions with Adjusted Budget | Adjusted Budget & Adjusted Sources[1] | Percent of Adjusted Total |
|---|---|---|---|---|---|
| Permanent Loan | $67,273,377 | $73,483,327 | $73,483,327 | $73,483,327 | 61.6% |
| Developer or Investor Equity [2] | $39,017,835 | $32,807,884 | $28,007,884 | $30,495,484 | 25.6% |
| Apartment Grant | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | 2.5% |
| Parking Grant[1] | $14,850,000 | $14,850,000 | $14,850,000 | $12,362,400 | 10.4% |
| **Total Sources** | **$124,141,212** | **$124,141,212** | **$119,341,212** | **$119,341,212** | **100.0%** |

Source: The Cordish Companies; *SB Friedman*

[1] Parking Grant adjusted from 500 spaces at $29,700 per space to 450 spaces at $27,742, based on information from the EDC.

[2] Equity was adjusted to reflect the reduced land cost as discussed in the previous memorandum.

## NEED FOR FINANCIAL ASSISTANCE

As in the initial review, *SB Friedman* evaluated the need for financial assistance based on unleveraged returns/returns on total cost due to the preliminary financing structure provided by the Developer. Leveraged returns are highly dependent on financing assumptions and are therefore less appropriate for a project at this stage in the development cycle. *SB Friedman* has analyzed the Project's need for financial assistance from the EDC under three scenarios:

1. **Without PIEA Assistance.** This scenario assumes the Project will not receive any PIEA assistance, but would receive the aforementioned City Grants as part of its financing.

2. **With Requested PIEA Property Tax Abatement and Up-front Grants.** This scenario assumes the requested property tax abatement is provided based on the Developer's requested PILOT schedule and a 500-space $14.85 million parking grant.

3. **With Requested PIEA Property Tax Abatement and Adjusted Up-front Grants.** This scenario assumes the requested property tax abatement is provided based on the Developer's requested PILOT schedule and a 450-space $12.36 million parking grant.

In the previous analysis, *SB Friedman* concluded that the Project did not appear to require assistance beyond the up-front parking and apartment grants. However, as presented in **Table 3** below, if the Developer's revised pro forma assumptions are accepted (even with *SB Friedman*'s adjusted vacancy allowance), the Project would now appear to require the full requested 25-year PIEA abatement, in addition to the full amount of both up-front City grants.

**Table 3: Projected Developer Returns**

| Returns Metric | Original SBF Review No PIEA Assistance | Updated: No PIEA Assistance | Updated: 25-YR PIEA, Requested Parking Grant | Updated: 25-YR PIEA, Adjusted Parking Grant [1] | Industry Benchmark [2] |
|---|---|---|---|---|---|
| Stabilized Yield on Cost (Year 3) | 6.6%[3] | 5.4% | 5.8% | 5.6% | 6.0-7.0% [4] |
| Unleveraged IRR | 7.3% | 5.0% | 5.5% | 5.2% | 7.0-8.0% |
| Undiscounted Value of Abatement | $0 | $0 | $6,979,237 | $6,979,237 | |

Source: *SB Friedman,* RealtyRates
[1] Parking Grant adjusted from 500 spaces at $29,700 per space to 450 spaces at $27,742 per space, based on information from the EDC.
[2] Per *SB Friedman* experience, recent projects, and interview with private equity firm.
[3] Year 6 Stabilized Yield on Cost in the original analysis.
[4] 7.0% Stabilized Yield is generally only required for higher-risk projects and those without institutional debt.

## CONCLUSIONS AND RECOMMENDATIONS

The revised pro forma assumptions submitted by the Developer have a substantial effect on *SB Friedman's* projected returns. If these assumptions are accepted, the Project would appear to require the full amount of requested PIEA assistance, in addition to the two up-front City grants, in order to achieve returns that are approaching market levels.

- One of the key items cited by the Developer as a concern to justify the decrease in rent assumptions is the large amount of supply entering the market and softening market conditions in general. A meaningful share of the competition for Three Light is from the One Light and Two Light developments, which previously received City and PIEA assistance. There is therefore a somewhat circular argument for assistance—market pressure from the Developer's own projects is reducing the projected Project cash flow, thus indicating a need for greater public assistance. In general, *SB Friedman* does not recommend providing long-term (25-year) assistance packages to address relatively recent/short-term concerns regarding absorption/oversupply.

- As a matter of policy, the PIEA may want to consider whether 25-year abatements should continue to be considered for market-rate projects in well-established markets or whether it is critical that a majority or all of the tax base increases start to flow to public coffers earlier in the life cycle of projects like Three Light. It is appropriate that One Light received a high level of public assistance (a City grant for each apartment unit built, PIEA assistance and a discounted land acquisition price) due to the development risk associated with introducing a new luxury residential product into an unproven market. However, One Light has performed at well over pro forma rents, meaning developer return projections have been exceeded. Following the overwhelming success of rents at One Light, Two Light received an adjusted assistance package with a higher PILOT, but also received City grants for each apartment unit and parking space, as well as the discounted land. While the Developer has requested PIEA assistance with an increased PILOT for Three Light (above the PILOT for both One Light and Two Light), the PIEA should consider whether the requested PILOT and duration of assistance is appropriate from a policy perspective, given that the luxury apartment market has been proven and downtown has been well established as a desirable neighborhood.

The Project is in the very early stages of the development. In general, the Developer's revised information included a series of relatively minor changes in assumptions based on generalized concerns about the market. All of these changes were adverse to the Project's projected financial performance, and thus cumulatively result in meaningfully lower financial returns. This underscores the wide range of variables that may alter the Project's ultimate financial performance, depending on market conditions at the time the Project is ultimately built. In recognition of these dynamics, *SB Friedman* would recommend the EDC consider the following types of deal features, should the EDC elect to offer assistance to the Project:

- **Conduct a Certified Review of Construction Costs and Stabilized Rents.** The assistance could be structured in a manner by which the EDC and/or the City have the ability to conduct a certified review of construction costs prior to groundbreaking and a secondary review during construction, as well as a review of rents submitted for bank/investor underwriting at the time financing is closed and when the Project reaches stabilization. This would allow the EDC to determine if the Project is experiencing cost savings or rent performance that were not previously reflected in the Project pro forma. Should the Project experience cost savings or if revenue outperforms expectations, the EDC would have the opportunity to revise the Project's provided level of assistance.

- **Require Audited Financials upon Stabilization.** Given that One Light outperformed its pro forma rents and that the information submitted for the Project is preliminary, we recommend that the Project be audited in Year 5 of operations in order to determine whether or not the additional assistance is in fact needed moving forward. The audited financials would be used to analyze the actual returns achieved by the Project

- **Time Limit for Assistance Commitment.** *SB Friedman* would recommend that any agreement with the Developer be structured to guarantee performance within a defined development schedule. If the Project does not break ground within a specified amount of time (e.g., 6-12) months of the schedule provided by the Developer, the agreement should expire, with the understanding that the City and the EDC have provided assistance to this particular Project in reaction to policy goals and market conditions that are applicable at this specific time. If the Project moves forward outside of the development schedule, the Developer would be required to resubmit information to the EDC for a review of the updated project assumptions.

## Appendix A

**LIMITATIONS OF OUR ENGAGEMENT**

Our report is based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and meetings/teleconferences with the Economic Development Corporation of Kansas City and the Developer during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the report. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our report, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise analyses or the report to reflect events or conditions that occur subsequent to the date of the report. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in PIEA statute, additional competitive developments, interest rates, and other market factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our report is intended solely for your information, for purposes of reviewing a request for financial assistance, and is not a recommendation to issue bonds or other securities. The report should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors without our prior written consent.

We acknowledge that upon submission to the EDC, the report may become a public document within the meaning of the Freedom of Information Act. Nothing in these limitations is intended to block the disclosure of the documents under such Act.

# Appendix B

### Table 1B: Detailed Development Budget

| Development Costs | Developer Assumption | SBF Adjustment | % of Adj. Total | Adj. $ PSF of Bldg | Adj.$ PSF of Land |
|---|---|---|---|---|---|
| **Acquisition Costs** | | | | | |
| *LAND COSTS / VALUE* | $5,000,000 | $200,000 | 0.2% | | $7 |
| **Total Acquisition Costs** | **$5,000,000** | **$200,000** | **0.2%** | **$1** | **$7** |
| | | | | | |
| **Hard Construction Costs** | | | | | |
| *Building* | $77,000,000 | $77,000,000 | 64.5% | $220 | |
| *Building - FF&E & Courtyard Amenity* | $2,500,000 | $2,500,000 | 2.1% | $7 | |
| *Parking Garage* | $17,500,000 | $17,500,000 | 14.7% | $50 | |
| *Contingency - Hard Costs* | $6,790,000 | $6,790,000 | 5.7% | $19 | |
| **Total Hard Construction Costs** | **$103,790,000** | **$103,790,000** | **87.0%** | **$297** | |
| | | | | | |
| **Soft Costs** | | | | | |
| *Architecture/Interior & Reimbursables* | $2,300,000 | $2,300,000 | 1.9% | $7 | |
| *Engineering* | $700,000 | $700,000 | 0.6% | $2 | |
| *Permits/Fees* | $520,000 | $520,000 | 0.4% | $1 | |
| *Real Estate Taxes* | $750,000 | $750,000 | 0.6% | $2 | |
| *Insurance - Builders Risk/Liability* | $100,000 | $100,000 | 0.1% | $0 | |
| *Title Insurance* | $80,000 | $80,000 | 0.1% | $0 | |
| *Marketing/Advertising* | $500,000 | $500,000 | 0.4% | $1 | |
| *Tenant Allowance - Retail* | $1,500,000 | $1,500,000 | 1.3% | $4 | |
| *Broker Commission - Retail* | $25,000 | $25,000 | 0.0% | $0 | |
| *Market Study/Leasing Staff/Misc. - Residential* | $250,000 | $250,000 | 0.2% | $1 | |
| *Contingency - Soft Costs* | $742,603 | $742,603 | 0.6% | $2 | |
| **Total Soft Costs** | **$7,467,603** | **$7,467,603** | **6.3%** | **$21** | |
| | | | | | |
| **Financing Costs** | | | | | |
| *Loan Fees* | $766,181 | $766,181 | 0.6% | $2 | |
| *Other Loan Costs/Legal Fees* | $234,500 | $234,500 | 0.2% | $1 | |
| *Construction Period Interest* | $2,507,928 | $2,507,928 | 2.1% | $7 | |
| **Total Financing Costs** | **$3,508,609** | **$3,508,609** | **2.9%** | **$10** | |
| | | | | | |
| **Developer Fees** | | | | | |
| *Developer Overhead & Construction Management* | $4,000,000 | $4,000,000 | 3.4% | | |
| **Total Developer Fees** | **$4,000,000** | **$4,000,000** | **3.4%** | **$11** | |
| | | | | | |
| **Reserves and Other Costs** | | | | | |
| *Year 1 Operating Losses / Working Capital* | $375,000 | $375,000 | 0.3% | $1 | |
| **Total Reserves and Other Costs** | **$375,000** | **$375,000** | **0.3%** | **$1** | |
| | | | | | |
| **TOTAL DEVELOPMENT COSTS** | **$124,141,212** | **$119,341,212** | **100.0%** | **$341** | |

*Source: Cordish and SB Friedman*

## Table 2B: Cash Flow Pro Forma: No PIEA Assistance (with Requested Parking Grant)

| | | | | *STABILIZATION* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **NO ASSISTANCE** | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **DEVELOPMENT SOURCES** | | | | | | | | | | | |
| Debt / Senior Financing | -$73,483,327 | | | | | | | | | | |
| Developer or Investor Equity | -$28,007,884 | | | | | | | | | | |
| City Grants | -$17,850,000 | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Payout of Capitalized Reserves | | *$375,000* | | | | | | | | | |
| Reversion Proceeds (Year 10) | | | | | | | | | | | $95,338,517 |
| **TOTAL** | | **$4,497,304** | **$5,158,982** | **$5,482,831** | **$5,594,368** | **$5,683,044** | **$5,798,190** | **$5,889,781** | **$6,008,627** | **$6,103,204** | **$101,564,360** |
| | | | | | | | | | | | |
| **DEVELOPMENT USES** | | | | | | | | | | | |
| Permanent Debt Service | | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 |
| Permanent Debt Repayment (Year 10) | | | | | | | | | | | $59,772,855 |
| Equity Distribution | | -$236,389 | $425,289 | $749,139 | $860,675 | $949,351 | $1,064,497 | $1,156,089 | $1,274,935 | $1,369,512 | $37,057,811 |
| **TOTAL** | | **$4,497,304** | **$5,158,982** | **$5,482,831** | **$5,594,368** | **$5,683,044** | **$5,798,190** | **$5,889,781** | **$6,008,627** | **$6,103,204** | **$101,564,360** |
| *Debt Coverage Ratio* | | *0.87* | *1.09* | *1.16* | *1.18* | *1.20* | *1.22* | *1.24* | *1.27* | *1.29* | *1.32* |
| | | | | | | | | | | | |
| **LEVERAGED CASH FLOW - NO ASSISTANCE** | | | | | | | | | | | |
| Equity Contribution | -$28,007,884 | | | | | | | | | | |
| Equity Distribution | | -$236,389 | $425,289 | $749,139 | $860,675 | $949,351 | $1,064,497 | $1,156,089 | $1,274,935 | $1,369,512 | $37,057,811 |
| **TOTAL** | -$28,007,884 | -$236,389 | $425,289 | $749,139 | $860,675 | $949,351 | $1,064,497 | $1,156,089 | $1,274,935 | $1,369,512 | $37,057,811 |
| *Annual Cash-on-Cash Return* | | *0.0%* | *1.5%* | *2.7%* | *3.1%* | *3.4%* | *3.8%* | *4.1%* | *4.6%* | *4.9%* | *5.3%* |
| **Leveraged IRR - No Assistance** | **5.1%** | | | | | | | | | | |
| | | | | | | | | | | | |
| **UNLEVERAGED CASH FLOW - NO ASSISTANCE** | | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Reversion Proceeds (Year 10) | | | | | | | | | | | $95,338,517 |
| City Grants | $17,850,000 | | | | | | | | | | |
| Total Project Costs | -$119,341,212 | | | | | | | | | | |
| **TOTAL** | -$101,491,212 | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $101,564,360 |
| *Annual Yield on Cost* | | *4.1%* | *5.1%* | *5.4%* | *5.5%* | *5.6%* | *5.7%* | *5.8%* | *5.9%* | *6.0%* | *6.1%* |
| **Unleveraged IRR - No Assistance** | **5.0%** | | | | | | | | | | |

Source: The Cordish Companies; *SB Friedman*

## Table 3B: Cash Flow Pro Forma: 25-Year PIEA Assistance, Requested Parking Grant

| | | | | *STABILIZATION* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **FULL ASSISTANCE** | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **DEVELOPMENT SOURCES** | | | | | | | | | | | |
| Debt / Senior Financing | -$73,483,327 | | | | | | | | | | |
| Developer or Investor Equity | -$28,007,884 | | | | | | | | | | |
| City Grants | -$17,850,000 | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Savings from Property Tax Assistance | | $344,821 | $344,821 | $355,166 | $355,166 | $365,821 | $365,821 | $376,796 | $376,796 | $388,100 | $388,100 |
| PV of Remaining Assistance (Year 11+) | | | | | | | | | | | $2,042,212 |
| Payout of Capitalized Reserves | | *$375,000* | | | | | | | | | |
| Reversion Proceeds (Year 10) | | | | | | | | | | | $95,338,517 |
| **TOTAL** | | **$4,842,126** | **$5,503,804** | **$5,837,998** | **$5,949,534** | **$6,048,865** | **$6,164,011** | **$6,266,577** | **$6,385,423** | **$6,491,304** | **$103,994,672** |
| | | | | | | | | | | | |
| **DEVELOPMENT USES** | | | | | | | | | | | |
| Permanent Debt Service | | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 |
| Permanent Debt Repayment (Year 10) | | | | | | | | | | | $59,772,855 |
| Equity Distribution | | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| **TOTAL** | | **$4,842,126** | **$5,503,804** | **$5,837,998** | **$5,949,534** | **$6,048,865** | **$6,164,011** | **$6,266,577** | **$6,385,423** | **$6,491,304** | **$103,994,672** |
| *Debt Coverage Ratio* | | | *1.16* | *1.23* | *1.26* | *1.28* | *1.30* | *1.32* | *1.35* | *1.37* | *1.40* |
| | | | | | | | | | | | |
| **LEVERAGED CASH FLOW - FULL ASSISTANCE** | | | | | | | | | | | |
| Equity Contribution | -$28,007,884 | | | | | | | | | | |
| Equity Distribution | | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| **TOTAL** | -$28,007,884 | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| *Annual Cash-on-Cash Return* | | *0.0%* | *2.7%* | *3.9%* | *4.3%* | *4.7%* | *5.1%* | *5.5%* | *5.9%* | *6.3%* | *6.7%* |
| **Leveraged IRR - Full Assistance** | **6.8%** | | | | | | | | | | |
| | | | | | | | | | | | |
| **UNLEVERAGED CASH FLOW - FULL ASSISTANCE** | | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Savings from Property Tax Assistance | | $344,821 | $344,821 | $355,166 | $355,166 | $365,821 | $365,821 | $376,796 | $376,796 | $388,100 | $388,100 |
| City Grants | $17,850,000 | | | | | | | | | | |
| PV of Remaining Assistance (Year 11+) | | | | | | | | | | | $2,042,212 |
| Reversion Proceeds | | | | | | | | | | | $95,338,517 |
| Total Project Costs | -$119,341,212 | | | | | | | | | | |
| **TOTAL** | -$101,491,212 | $4,467,126 | $5,503,804 | $5,837,998 | $5,949,534 | $6,048,865 | $6,164,011 | $6,266,577 | $6,385,423 | $6,491,304 | $103,994,672 |
| *Annual Yield on Cost* | | *4.4%* | *5.4%* | *5.8%* | *5.9%* | *6.0%* | *6.1%* | *6.2%* | *6.3%* | *6.4%* | *6.5%* |
| **Unleveraged IRR - Full Assistance** | **5.5%** | | | | | | | | | | |

Source: The Cordish Companies; *SB Friedman*

## Table 4B: Cash Flow Pro Forma: 25-Year PIEA Assistance, Adjusted Parking Grant

| | | | | *STABILIZATION* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **FULL ASSISTANCE** | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **DEVELOPMENT SOURCES** | | | | | | | | | | | |
| Debt / Senior Financing | -$73,483,327 | | | | | | | | | | |
| Developer or Investor Equity | -$30,495,484 | | | | | | | | | | |
| City Grants | -$15,362,400 | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Savings from Property Tax Assistance | | $344,821 | $344,821 | $355,166 | $355,166 | $365,821 | $365,821 | $376,796 | $376,796 | $388,100 | $388,100 |
| PV of Remaining Assistance (Year 11+) | | | | | | | | | | | $2,042,212 |
| Payout of Capitalized Reserves | | *$375,000* | | | | | | | | | |
| Reversion Proceeds (Year 10) | | | | | | | | | | | $95,338,517 |
| **TOTAL** | | **$4,842,126** | **$5,503,804** | **$5,837,998** | **$5,949,534** | **$6,048,865** | **$6,164,011** | **$6,266,577** | **$6,385,423** | **$6,491,304** | **$103,994,672** |
| | | | | | | | | | | | |
| **DEVELOPMENT USES** | | | | | | | | | | | |
| Permanent Debt Service | | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 | $4,733,693 |
| Permanent Debt Repayment (Year 10) | | | | | | | | | | | $59,772,855 |
| Equity Distribution | | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| **TOTAL** | | **$4,842,126** | **$5,503,804** | **$5,837,998** | **$5,949,534** | **$6,048,865** | **$6,164,011** | **$6,266,577** | **$6,385,423** | **$6,491,304** | **$103,994,672** |
| *Debt Coverage Ratio* | | | *1.16* | *1.23* | *1.26* | *1.28* | *1.30* | *1.32* | *1.35* | *1.37* | *1.40* |
| | | | | | | | | | | | |
| **LEVERAGED CASH FLOW - FULL ASSISTANCE** | | | | | | | | | | | |
| Equity Contribution | -$30,495,484 | | | | | | | | | | |
| Equity Distribution | | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| **TOTAL** | -$30,495,484 | $108,433 | $770,111 | $1,104,305 | $1,215,842 | $1,315,172 | $1,430,318 | $1,532,884 | $1,651,731 | $1,757,611 | $39,488,124 |
| *Annual Cash-on-Cash Return* | | *0.0%* | *2.5%* | *3.6%* | *4.0%* | *4.3%* | *4.7%* | *5.0%* | *5.4%* | *5.8%* | *6.2%* |
| **Leveraged IRR - Full Assistance** | **5.7%** | | | | | | | | | | |
| | | | | | | | | | | | |
| **UNLEVERAGED CASH FLOW - FULL ASSISTANCE** | | | | | | | | | | | |
| Net Operating Income | | $4,122,304 | $5,158,982 | $5,482,831 | $5,594,368 | $5,683,044 | $5,798,190 | $5,889,781 | $6,008,627 | $6,103,204 | $6,225,842 |
| Savings from Property Tax Assistance | | $344,821 | $344,821 | $355,166 | $355,166 | $365,821 | $365,821 | $376,796 | $376,796 | $388,100 | $388,100 |
| City Grants | $15,362,400 | | | | | | | | | | |
| PV of Remaining Assistance (Year 11+) | | | | | | | | | | | $2,042,212 |
| Reversion Proceeds | | | | | | | | | | | $95,338,517 |
| Total Project Costs | -$119,341,212 | | | | | | | | | | |
| **TOTAL** | -$103,978,812 | $4,467,126 | $5,503,804 | $5,837,998 | $5,949,534 | $6,048,865 | $6,164,011 | $6,266,577 | $6,385,423 | $6,491,304 | $103,994,672 |
| *Annual Yield on Cost* | | *4.3%* | *5.3%* | *5.6%* | *5.7%* | *5.8%* | *5.9%* | *6.0%* | *6.1%* | *6.2%* | *6.4%* |
| **Unleveraged IRR - Full Assistance** | **5.2%** | | | | | | | | | | |

Source: The Cordish Companies; *SB Friedman*

## Table 5B: Developer Tax Projections: PILOT Payment

### Retail

**Assumptions:**

| | | | | |
|---|---|---|---|---|
| Retail SF - | 10,000 | | Employees - | 33 | |
| Sales PSF - | 400 | | Avg. Salary - | 50,000 | /employee |
| Sales Incr. - | 3.00% | /year | Salary Incr. - | 3.00% | /year |
| Sales Tax - | 4.75% | | Earnings Tax - | 1.00% | |

| | Sales Taxes | Utility Taxes | Earnings Tax | City Prop. Tax | Total |
|---|---|---|---|---|---|
| Year 1 | 190,000 | - | 16,667 | 30,000 | 236,667 |
| Year 2 | 195,700 | - | 17,167 | 30,000 | 242,867 |
| Year 3 | 201,571 | - | 17,682 | 31,200 | 250,453 |
| Year 4 | 207,618 | - | 18,212 | 31,200 | 257,030 |
| Year 5 | 213,847 | - | 18,758 | 31,824 | 264,429 |
| Year 6 | 220,262 | - | 19,321 | 31,824 | 271,407 |
| Year 7 | 226,870 | - | 19,901 | 32,460 | 279,231 |
| Year 8 | 233,676 | - | 20,498 | 32,460 | 286,634 |
| Year 9 | 240,686 | - | 21,113 | 33,109 | 294,908 |
| Year 10 | 247,907 | - | 21,746 | 33,109 | 302,762 |
| Year 11 | 255,344 | - | 22,399 | 33,771 | 311,514 |
| Year 12 | 263,004 | - | 23,071 | 33,771 | 319,846 |
| Year 13 | 270,895 | - | 23,763 | 34,446 | 329,104 |
| Year 14 | 279,021 | - | 24,476 | 34,446 | 337,943 |
| Year 15 | 287,392 | - | 25,210 | 35,135 | 347,737 |
| Year 16 | 296,014 | - | 25,966 | 35,135 | 357,115 |
| Year 17 | 304,894 | - | 26,745 | 35,838 | 367,477 |
| Year 18 | 314,041 | - | 27,547 | 35,838 | 377,427 |
| Year 19 | 323,462 | - | 28,374 | 36,555 | 388,391 |
| Year 20 | 333,166 | - | 29,225 | 36,555 | 398,946 |
| Year 21 | 343,161 | - | 30,102 | 37,286 | 410,549 |
| Year 22 | 353,456 | - | 31,005 | 37,286 | 421,747 |
| Year 23 | 364,060 | - | 31,935 | 38,032 | 434,026 |
| Year 24 | 374,981 | - | 32,893 | 38,032 | 445,906 |
| Year 25 | 386,231 | - | 33,880 | 38,792 | 458,903 |
| **Total Retail** | | | | | **8,393,018** |

### Residential

**Assumptions:**

| | | | | | |
|---|---|---|---|---|---|
| No. of Residents- | 450 | | Earnings Tax - | 1.00% | |
| *Net New % -* | *70.00%* | | Avg. Utility Cost - | 2,500 | |
| Avg. Salary - | 175,000 | /resident | Utility Incr. - | 2.00% | /year |
| Salary Incr. - | 3.00% | /year | Utility Tax - | 6.00% | |

| | Sales Taxes | Utility Taxes | Earnings Tax | City Prop. Tax | Total |
|---|---|---|---|---|---|
| Year 1 | - | 67,500 | 551,250 | 450,300 | 1,069,050 |
| Year 2 | - | 68,850 | 567,788 | 450,300 | 1,086,938 |
| Year 3 | - | 70,227 | 584,821 | 463,809 | 1,118,857 |
| Year 4 | - | 71,632 | 602,366 | 463,809 | 1,137,806 |
| Year 5 | - | 73,064 | 620,437 | 477,723 | 1,171,224 |
| Year 6 | - | 74,525 | 639,050 | 477,723 | 1,191,299 |
| Year 7 | - | 76,016 | 658,221 | 492,055 | 1,226,292 |
| Year 8 | - | 77,536 | 677,968 | 492,055 | 1,247,559 |
| Year 9 | - | 79,087 | 698,307 | 506,817 | 1,284,211 |
| Year 10 | - | 80,669 | 719,256 | 506,817 | 1,306,742 |
| Year 11 | - | 82,282 | 740,834 | 522,021 | 1,345,137 |
| Year 12 | - | 83,928 | 763,059 | 522,021 | 1,369,008 |
| Year 13 | - | 85,606 | 785,951 | 537,682 | 1,409,239 |
| Year 14 | - | 87,318 | 809,529 | 537,682 | 1,434,529 |
| Year 15 | - | 89,065 | 833,815 | 553,812 | 1,476,692 |
| Year 16 | - | 90,846 | 858,830 | 553,812 | 1,503,488 |
| Year 17 | - | 92,663 | 884,594 | 570,426 | 1,547,684 |
| Year 18 | - | 94,516 | 911,132 | 570,426 | 1,576,075 |
| Year 19 | - | 96,407 | 938,466 | 587,539 | 1,622,412 |
| Year 20 | - | 98,335 | 966,620 | 587,539 | 1,652,494 |
| Year 21 | - | 100,301 | 995,619 | 605,165 | 1,701,086 |
| Year 22 | - | 102,307 | 1,025,487 | 605,165 | 1,732,960 |
| Year 23 | - | 104,354 | 1,056,252 | 623,320 | 1,783,926 |
| Year 24 | - | 106,441 | 1,087,940 | 623,320 | 1,817,701 |
| Year 25 | - | 108,570 | 1,120,578 | 623,320 | 1,852,468 |
| **Total Residential** | | | | | **35,664,875** |

### TOTAL PROJECT

| | Sales Taxes | Utility Taxes | Earnings Tax | City Prop. Tax | Total |
|---|---|---|---|---|---|
| Year 1 | 190,000 | 67,500 | 567,917 | 480,300 | 1,305,717 |
| Year 2 | 195,700 | 68,850 | 584,954 | 480,300 | 1,329,804 |
| Year 3 | 201,571 | 70,227 | 602,503 | 495,009 | 1,369,310 |
| Year 4 | 207,618 | 71,632 | 620,578 | 495,009 | 1,394,837 |
| Year 5 | 213,847 | 73,064 | 639,195 | 509,547 | 1,435,653 |
| Year 6 | 220,262 | 74,525 | 658,371 | 509,547 | 1,462,706 |
| Year 7 | 226,870 | 76,016 | 678,122 | 524,515 | 1,505,524 |
| Year 8 | 233,676 | 77,536 | 698,466 | 524,515 | 1,534,193 |
| Year 9 | 240,686 | 79,087 | 719,420 | 539,926 | 1,579,119 |
| Year 10 | 247,907 | 80,669 | 741,002 | 539,926 | 1,609,504 |
| Year 11 | 255,344 | 82,282 | 763,233 | 555,792 | 1,656,651 |
| Year 12 | 263,004 | 83,928 | 786,129 | 555,792 | 1,688,854 |
| Year 13 | 270,895 | 85,606 | 809,713 | 572,128 | 1,738,342 |
| Year 14 | 279,021 | 87,318 | 834,005 | 572,128 | 1,772,472 |
| Year 15 | 287,392 | 89,065 | 859,025 | 588,947 | 1,824,429 |
| Year 16 | 296,014 | 90,846 | 884,796 | 588,947 | 1,860,603 |
| Year 17 | 304,894 | 92,663 | 911,340 | 606,264 | 1,915,161 |
| Year 18 | 314,041 | 94,516 | 938,680 | 606,264 | 1,953,501 |
| Year 19 | 323,462 | 96,407 | 966,840 | 624,094 | 2,010,803 |
| Year 20 | 333,166 | 98,335 | 995,845 | 624,094 | 2,051,440 |
| Year 21 | 343,161 | 100,301 | 1,025,721 | 642,451 | 2,111,634 |
| Year 22 | 353,456 | 102,307 | 1,056,492 | 642,451 | 2,154,707 |
| Year 23 | 364,060 | 104,354 | 1,088,187 | 661,352 | 2,217,952 |
| Year 24 | 374,981 | 106,441 | 1,120,833 | 661,352 | 2,263,607 |
| Year 25 | 386,231 | 108,570 | 1,154,458 | 662,112 | 2,311,371 |
| **TOTAL PROJECT** | | | | | **44,057,893** |
| | | | **NPV @** | 4.50% | **24,744,266** |

Source: The Cordish Companies

## Table 6B: Property Tax Projection: Full Taxes

| Assumptions | | |
|---|---|---|
| Per unit value | $ | 176,576 |
| Total value | $ | 52,972,784 |
| Res assessment | $ | 10,064,829 |
| Residential Taxes | | 795,121 |

| | Retail Prop. Tax | Residential Prop. Tax | Total Prop. Tax |
|---|---|---|---|
| Year 1 | 30,000 | 795,121 | 825,121 |
| Year 2 | 30,000 | 795,121 | 825,121 |
| Year 3 | 31,200 | 818,975 | 850,175 |
| Year 4 | 31,200 | 818,975 | 850,175 |
| Year 5 | 31,824 | 843,544 | 875,368 |
| Year 6 | 31,824 | 843,544 | 875,368 |
| Year 7 | 32,460 | 868,851 | 901,311 |
| Year 8 | 32,460 | 868,851 | 901,311 |
| Year 9 | 33,109 | 894,916 | 928,025 |
| Year 10 | 33,109 | 894,916 | 928,025 |
| Year 11 | 33,771 | 921,764 | 955,535 |
| Year 12 | 33,771 | 921,764 | 955,535 |
| Year 13 | 34,446 | 949,417 | 983,863 |
| Year 14 | 34,446 | 949,417 | 983,863 |
| Year 15 | 35,135 | 977,899 | 1,013,034 |
| Year 16 | 35,135 | 977,899 | 1,013,034 |
| Year 17 | 35,135 | 1,007,236 | 1,042,371 |
| Year 18 | 35,838 | 1,007,236 | 1,043,074 |
| Year 19 | 36,555 | 1,037,453 | 1,074,008 |
| Year 20 | 36,555 | 1,037,453 | 1,074,008 |
| Year 21 | 37,286 | 1,068,577 | 1,105,863 |
| Year 22 | 37,286 | 1,068,577 | 1,105,863 |
| Year 23 | 38,032 | 1,100,634 | 1,138,666 |
| Year 24 | 38,032 | 1,100,634 | 1,138,666 |
| Year 25 | 38,792 | 1,133,653 | 1,172,445 |

Source: The Cordish Companies, Jackson County Assessor; *SB Friedman*