SBFRIEDMAN

EXHIBIT 5A
LCRA 11/28/18

MEMO

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

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Date: November 12, 2018

RE: Preliminary Financial Review – Mark Twain Tower

SB Friedman Development Advisors (SB Friedman) was engaged by the Economic Development Corporation of Kansas City, Missouri (EDCKC) to conduct a financial review of a proposed public/private financing arrangement that would assist in the conversion of the vacant Mark Twain Tower into rental apartments with ground floor retail (the "Project"). The Project will be developed by the Bernstein Companies (the "Developer") and is located at the northwest corner of 11st Street and Baltimore Street in Downtown Kansas City (the "Site"). Several historic spaces in the building will be rehabilitated as a part of the Project, including a historic ballroom and swimming pool.

The Developer has indicated that the Project is challenged by several factors, including the high cost of historic rehabilitation, flattening market rents, an oversupply of product in the development pipeline, rising financing costs, and a shortage of qualified skilled labor. The Developer is therefore requesting the following assistance through EDCKC:

- Sales tax exemption on construction materials (STECM); and
- Abatement of 90% of property taxes (above current predevelopment taxes) generated by the Project for 10 years under the Land Clearance for Redevelopment Authority (LCRA).

At the request of EDCKC, SB Friedman also evaluated the Project at the ordinance-level of assistance (75% abatement for 10 years).

This memorandum includes a review of the following:

- Project characteristics
- Development budget
- Proposed sources of financing
- Pro forma assumptions and 10-year cash flow
- Need for financial assistance

The results of our analysis indicate that the full amount of requested assistance appears to be necessary for the Project to achieve viable rates of return and move forward. SB Friedman's recommendations are provided in more detail in the **Conclusions and Recommendations** section of this memo.

Project Characteristics

The proposed $51.9 million Project consists of the redevelopment of the historic 22-story Mark Twain Tower to multifamily rental apartments and ground-floor retail space. The building, previously a hotel, was built in 1915 and is listed on the National Register of Historic Places as part of a joint designation with six other historic downtown hotels. The building was converted to office uses in 2001, at which point it received a 25-year Chapter 353 property tax abatement. The building is currently owned by an affiliate of Hudson Holdings, Inc., which attempted to redevelop the building for residential uses in 2017. It is our understanding that the Developer entered into a purchase and sale agreement with the current owner through a competitive bidding process. Project plans are comparable to the previously proposed residential conversion project; however, the Developer is proposing a greater number of residential units and additional ground floor retail space. The development program includes:

- 202 apartments units, including:
    - 141 one-bedroom units; and,
    - 61 two-bedroom units;
- 18,000 square feet (SF) of ground floor retail; and,
- Residential amenities including a swimming pool, basketball court, and gym.

The building is approximately 253,000 SF; however, only 151,000 SF is assumed to be rentable due to the presence of historic building features, including a two-story ballroom and a three-story athletic club. Both spaces will be repurposed as residential amenities; however, there is the possibility that the ballroom space could also be used as an event space, should the ground floor retail space be leased to a restaurant tenant. Resident parking will be accommodated offsite in third-party garages.

Per the Developer, apartment units will be designed for and primarily marketed to millennials, while the commercial space will be marketed to tenants which would also serve as a residential amenity (e.g., restaurant, gym, or co-working space). To date, no tenants have been secured for the retail space.

PROJECT SITE

As presented in **Figure 1** on the following page, the Project is located within the downtown area, one block west of the Kansas City Streetcar line and one block north of the Power and Light District. In additional to ongoing new construction in the area, such as Two Light and Three Light, a number of adaptive reuse and residential conversions have occurred or are proposed nearby, including Commerce Tower, East 9 at Pickwick Plaza, and the Power and Light Building.

PROJECT SCHEDULE

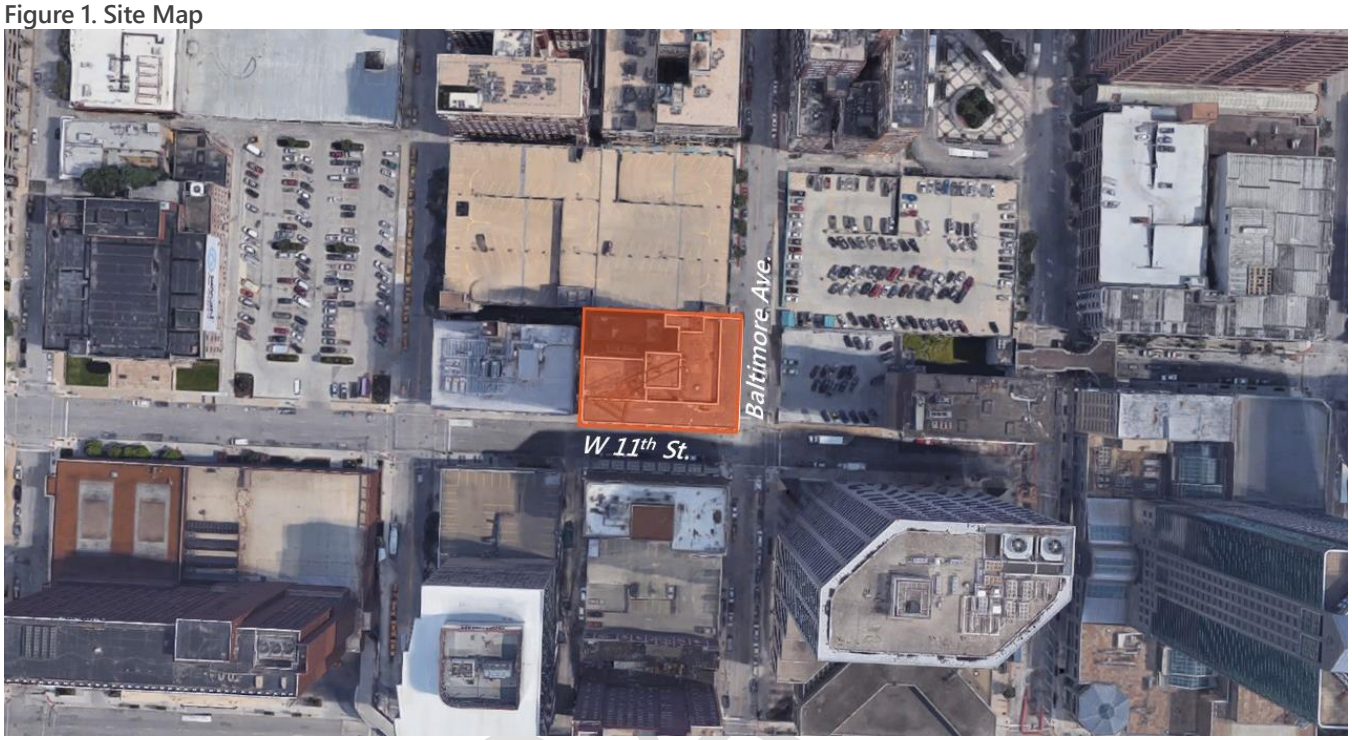
The Developer anticipates starting construction in November 2018, completing construction in November 2020, and achieving stabilization in 2021. Per the Developer, the November 2018 start date is critical as a minimum of $2.5 million in Project costs need to be expended by year end to preserve the state historic tax credit allocation.

DEVELOPMENT TEAM

The Developer is a Washington D.C.-based firm with experience investing in, owning, managing, and developing real estate. The Developer typically develops projects to hold long-term, has worked in residential, hotel, and commercial

real estate sectors, and has experience with historic renovations and historic tax credit (HTC) transactions. This will be the Developer's first project in Kansas City.

Figure 1. Site Map



Source: Google and SB Friedman

Developer Pro Forma Assumptions

SB Friedman reviewed the EDCKC application and supplemental materials submitted by the Developer, and engaged the Developer in subsequent conversations to obtain additional and updated information to best understand underlying Project assumptions. The Developer included the following documents for review:

- Completed EDCKC application;
- 10-year pro forma, including summary development budget, sources and uses, cash flow and project assumptions;
- Preliminary bid for hard costs from BuildCon1;
- Phase 1 Environmental Site Assessment conducted by Hillmann Consulting, LLC dated November 8, 2018.
- Preliminary bid for environmental abatement costs from Developer Assistance Company, LLC;
- Rent and occupancy information for a set of comparable residential properties;
- Site Purchase and Sale Agreement, dated October 10, 2018;
- Floor plans, dated October 12, 2018; and,
- Evidence of outstanding debts attached to previous owners' efforts to develop the property, totaling $208,826.

PROJECT BUDGET

Figure 2 presents total development costs from the Developer's preliminary pro forma, as well as adjustments made by SB Friedman for the purposes of evaluating the Project's need for financial assistance. Preliminary hard costs

estimates were prepared by BuildCon1, a contractor based in Lima, PA. SB Friedman evaluated the Developer's budget line items on a per SF or per unit basis and as a percentage of total costs using benchmarks from comparable Kansas City projects and SB Friedman's past experience. Detailed development costs are presented in **Appendix Table 1B**.

Figure 2. Development Budget Summary and Benchmarks

Development Costs [1]	Developer Budget	SBF Adjusted Budget			Benchmark or Notes [2]	Key Line Item
		Budget	% of TDC	$/GSF		
Acquisition Costs	$10,195,000	$6,783,800	14.0%	$27	$20-29	*
Hard Construction Costs	$33,987,025	$33,987,025	70.1%	$134	[3]	*
Soft Costs	$3,413,788	$3,413,788	7.0%	$13	[3]	
Financing Costs	$3,324,022	$3,324,022	6.9%	$13		
Developer Fees	$950,000	$950,000	2.0% [4]	$4	[3, 4]	
TOTAL DEVELOPMENT COSTS (TDC)	**$51,869,835**	**$48,458,635**	**100.0%**	**$191**		

[1] Costs reflect budget provided by Developer on October 10, 2018 with subsequent updates as provided by the Developer
[2] Based on data from comparable Kansas City project budgets
[3] Within reasonable range
[4] Percent of TDC, net of acquisition
Source: The Bernstein Companies and SB Friedman

- **Acquisition**. Acquisition costs are assumed to be approximately $10.2 million, including a $9.3 million purchase price, $245,000 in closing costs, and $650,000 in costs associated with the previous owners. Further detail regarding the acquisition costs is outlined below.

    - **Purchase Price**. The Developer anticipates purchasing the building for $9.3 million or approximately $37/GSF. As previously discussed, the Developer entered into a purchase and sale agreement with the current owner through a competitive bidding process. The Developer indicated that there had been considerable interest for the building in the bidding process and felt this bid price offered the best chance to acquire the building while still achieving a viable return. An as-is appraisal is underway, but was not available prior to concluding our analysis.

      SB Friedman benchmarked the proposed acquisition price against recent comparable sales of vacant shell buildings or those being purchased for adaptive reuse redevelopment. Over the last four years, sales of these properties observed by SB Friedman in the greater downtown area consistently ranged from $20-29/GSF (in 2018 dollars), with the exception of the Power and Light building ($39/GSF in 2018 dollars), which is located immediately adjacent to the Power and Light District. Furthermore, a Cushman and Wakefield February 2016 appraisal for Mark Twain Tower valued the property at $6.3 million or approximately $23/GSF. Therefore, it appears the Developer may be paying an above market price for the building. For the purposes of evaluating the Project's need for assistance, acquisition costs were adjusted to $25/GSF of building, which aligns with the 2016 appraisal value, when adjusted to 2018 dollars, and is within range of comparable sales.

    - **Costs Associated with Previous Owners**. The Developer included $650,000 in the Project budget for unpaid costs associated with the previous owner's attempts to redevelop the building, particularly contractor liens on the property and unpaid architectural, engineering and consulting fees. The Developer provided documentation for $209,000 of these costs and indicated the remainder is an allowance. Without any further documentation of these costs, SB Friedman adjusted this line item to $209,000 for the purposes of sizing public assistance.

- **Hard Construction Costs**. Preliminary hard construction cost estimates were prepared by BuildCon1 and are approximately $34.0 million or $134/GSF. This is broken down further into approximately $26.2 million in hard costs for the residential units and $7.8 million in hard costs for the common areas, amenity spaces, and ground floor retail space. Costs associated with the rehabilitation of structures can be difficult to benchmark, as property conditions vary by property. However, the cost estimates were prepared by a third party and appear to be on the low end of costs observed for other office/hotel-to-residential conversion projects observed by SB Friedman in greater Downtown Kansas City.

- **STECM**. The Developer's budget did not include a valuation of the requested STECM. SB Friedman applied the standard EDCKC methodology for valuing STECM which assumes that 40% of hard costs are construction materials taxed at the prevailing Kansas City sales tax rate of 8.6%. In order to maintain the historic tax credits, the Developer indicated a need to spend approximately $2.5 million by year end 2018, which given timing constraints, would be before the STECM would be available. Therefore, $2.5 million in costs were excluded from the calculation of STECM. STECM for the Project is projected to reduce costs by approximately $1.1 million.

Remaining project costs, including soft and financing costs, and the developer fee were in line with benchmarks from comparable Kansas City projects and SB Friedman's past experience.

FINANCING

The Developer plans to finance the Project with conventional debt, cash equity, and federal and state Historic Tax Credit (HTC) equity. While the Developer has had preliminary discussions with potential lenders and HTC buyers, term sheets were not available for our review. Equity will be sourced from a fund affiliated with the Developer.

Debt appears to be sized using a 1.25 debt coverage ratio (DCR) with the net operating income (NOI) accounting for the property tax abatement; therefore, debt amounts vary between the no assistance, 90% abatement and 75% abatement scenarios. **Figure 3** presents preliminary financing information in the no assistance scenario, while **Figure 4** presents financing information for the two scenarios with assistance.

Figure 3. Preliminary Sources of Permanent Financing (No Assistance)

	Developer	SBF Adjusted Sources		
Development Sources	Sources	Sources	% of TDC	Benchmark [1]
Conventional Debt	$19,251,378	$19,306,258	39.8%	
Historic Tax Credit Equity	$8,718,933	$8,718,933	18.0%	
Cash Equity	$23,899,524	$20,433,444	42.2%	30-35%
TOTAL DEVELOPMENT SOURCES	**$51,869,835**	**$48,458,635**	**100.0%**	

[1] Based on SB Friedman experience
Source: The Bernstein Companies and SB Friedman

Figure 4. Preliminary Sources of Permanent Financing (With Assistance)

SBF Adjusted	90% Abatement		75% Abatement	
Development Sources	Sources	% of TDC	Sources	% of TDC
Conventional Debt	$23,216,873	47.9%	$22,565,104	46.6%
Historic Tax Credit Equity	$8,718,933	18.0%	$8,718,933	18.0%
Cash Equity	$16,522,829	34.1%	$17,174,598	35.4%
TOTAL DEVELOPMENT SOURCES	**$48,458,635**	**100%**	**$48,458,635**	**100%**

Source: The Bernstein Companies and SB Friedman

- **Conventional Debt**. The Developer appears to be sizing permanent debt using a 1.25 debt coverage (DCR) in the second stabilized year with a 5.75% interest rate and a 25-year amortization. The Developer's amortization and DCR assumptions appear to be reasonable based on recent projects reviewed by SB Friedman and industry data. The Developer's interest rate assumption may be slightly conservative relative to recent residential projects in Kansas City that have consistently averaged an interest rate of 5.5%. However, given that interest rates have increased three times in 2018, with a fourth increase expected by year-end, the Developer's interest rate assumption appears reasonable.

- **Historic Tax Credit Equity**. The Developer is assuming $8.7 million in equity from federal and state HTCs. The Developer intends to sell the credits to a third party; however, only preliminary discussions with HTC purchasers have occurred to date and no term sheets are available. The Developer assumes pricing of $0.80-0.85 per federal credit and approximately $0.90 per state credit (gross) which will yield $0.68 per credit (net) after accounting for fees, income, and taxes paid for by the investor on the state credits. Pricing on the federal credits is at the low-end of the range observed by SB Friedman on recent projects in the Kansas City market; however, recent changes to the tax code, including amortization of credits over a 5-year period, are causing downward pressure on the value of federal HTCs. Pricing on the state credits is within recently observed ranges despite uncertainty regarding recent changes to the Missouri HTC program. Actual HTC pricing is impacted by a number of market-driven and project-specific factors. As a result, SB Friedman did not adjust federal or state HTC pricing for the purpose of evaluating the need for public assistance.

- **Cash Equity**. The Developer assumes remaining Project costs after conventional debt and HTC equity will be financed with cash equity sourced from a Developer-affiliated fund. The Developer did not specify a target return to equity. The amount of equity required varies based on the level of abatement provided to the project and ranges from 42.2% of TDC without abatement to 34.1% with the requested assistance (90% abatement). Equity as a percent of TDC (with assistance) is within the range typically observed by SB Friedman and therefore appears reasonable.

CASH FLOW ASSUMPTIONS

SB Friedman compared cash flow assumptions in the Developer's pro forma with market data provided by the Developer, market comparables, and recent projects in Kansas City reviewed by SB Friedman. Key assumptions from the Developer's pro forma are outlined below.

- **Residential Rent**. The Developer is assuming rents of $1.95/SF, or approximately $1,515/month, and indicated that apartment units would include modern finishes and be consistent with recent higher-end historic rehab projects in the downtown market. While no formal market study was conducted, the Developer provided a selection of comparable properties. SB Friedman reviewed the Developer data, in addition to conducting further research into the downtown rental market. Comparable properties identified by the Developer and SB Friedman are presented in **Figure 5**. The Developer's rent assumption is near the top of the market for comparably-sized rehab properties when evaluated on a per SF basis – higher per SF rents for comparable properties generally reflect smaller unit sizes (i.e., Fairfax Lofts, Pickwick Plaza). The Power and Light Building has been able to achieve a rent per SF ($2.00/SF in 2020$) higher than the Project, which is likely attributed to the Power and Light Building's relatively stronger location adjacent to the Power and Light District. The Project's $1,515 average monthly chunk rent falls in between chunk rents at buildings with similarly sized units - Commerce Tower ($1,280, 752 SF) and Sky on Main ($1,661, 835 SF). However, both of those projects are in slightly more attractive locations, suggesting the Project's chunk rents appear reasonable. Overall, the Developer's rent assumptions appear to be in line with the current market, though there is the possibility that

the Project could achieve rents closer to those observed at the Power and Light Building. A sensitivity analysis with slightly higher rents is discussed in the **Conclusions and Recommendations** section.

Figure 5. Apartment Comparables Summary

Project Name	Number of Units	Average SF	Percent Vacancy	Average Rent PSF [1]	Average Rent per Unit [1]	Year Renovated
Mark Twain Tower	**202**	**779**	**5.0% [2]**	**$1.95**	**$1,515**	**2020**
Commerce Tower	355	752	11.0% [3]	$1.74	$1,280	2017
East 9 at Pickwick Plaza	260	629	2.3%	$2.09	$1,308	2017
Fairfax Lofts	28	643	21.4% [3]	$2.19	$1,389	2017
Power and Light Building	288	982	7.3%	$2.00	$1,967	2016
Roaster's Block	146	989	0.0%	$1.67	$1,629	2016
Sky on Main	41	835	9.8%	$1.83	$1,661	2016
Total/Average	**1,118**	**814**	**4.8%**	**$1.89**	**$1,526**	**--**

[1] Inflated to 2020 dollars using the adjustment to the Developer's inflation assumption (2%)
[2] Reflects adjustment by SB Friedman
[3] Property appears to be in lease up
Source: The Bernstein Companies, CoStar, and SB Friedman

- **Retail Rent**. The Developer is assuming triple net (NNN) retail rents of $13.50/SF for the 18,000 SF of ground floor retail space. The Developer acknowledged that this may be a conservative estimate and no tenants have been identified for the retail space. This rent appears low relative to the asking rents of $15-18/SF NNN for similar nearby spaces. The previous building owner had assumed that retail rents of $21-23/SF gross were achievable when adjusted to 2020 dollars, which results in triple net rents of approximately $15-17/SF. Therefore, it appears that the Developer is being somewhat conservative with retail rent projections. For the purposes of sizing public assistance, retail rent was adjusted to $15/SF, the low end of observed ranges for comparable product. No rent generation is projected from the ballroom space, as it is anticipated to primarily serve as tenant amenity space.

- **Absorption and Vacancy**. The Developer is assuming stabilization in Year 2 with economic vacancy of 8%, accounting for physical vacancy, bad debt, and concessions, though no market study was provided supporting the vacancy assumption. SB Friedman consistently observes a 5% vacancy loss assumption for new construction or rehabilitated residential rental projects in Kansas City and elsewhere. Therefore, for the purposes of evaluating the need for public assistance, the vacancy assumption was adjusted to 5%. The Developer is assuming absorption of approximately 17 units per month, within the range observed by SB Friedman for similar projects in Kansas City (15-20 units per month).

- **Operating Expense**. The Developer is assuming annual operating expenses, at stabilization, of approximately $1.3 million. This amount is roughly 37% of revenue (net of property taxes), which is higher than the 23-30% observed by SB Friedman in similar projects. However, the historic elements of the building cause inefficiencies between gross and rentable SF. This can limit income from the building and therefore skew the income and expense ratio higher as there are certain operating expenses associated with the non-revenue generating space (e.g., utilities, maintenance and repairs, payroll). When viewed on a per SF basis, the Developer's operating cost assumption of $0.43/SF is within range of expenses observed by SB Friedman in other rehabbed residential conversions ($0.38-0.42/SF) suggesting the Developer's operating expenses appear to be generally reasonable.

Included in the operating expenses is a 3% management fee on residential and commercial income (net of vacancy loss), which is in line with similar projects observed by SB Friedman in the Kansas City market.

- **Revenue Escalation/Expense Inflation**. The Developer is assuming annual income escalation and annual expense inflation of 1.5%. SB Friedman typically observes escalation and inflation rates of between 2-3%. For purposes of sizing public assistance, SB Friedman adjusted these rates to 2.0% to reflect more typical assumptions in the Kansas City market.

- **Exit Cap Rate**. The Developer is assuming an exit cap rate of 6.25%. SB Friedman has typically observed exit cap rates of between 6.0-6.5% in other recent residential projects reviewed in Kansas City. This assumption therefore appears reasonable.

- **Assessed Market Value and Real Estate Taxes**. The Developer estimated the future assessed value of the Project of $5.8 million or approximately $28,700/unit. Based on SB Friedman's and EDCKC experience, initial assessed value for residential properties typically ranges from $18,000-23,000/unit. However, the EDCKC indicated the higher assessed value per unit may be reasonable given the level of finish expected for the Project. The Developer is assuming 2.0% inflation of property taxes biennially.

  The Developer is proposing a base payment-in-lieu-of-taxes (PILOT) of approximately $61,000. This appears to reflect the Chapter 353 abatement, which is currently 50% of taxes above the previous base taxes.

Need for Financial Assistance

SB Friedman analysed the Project's need for financial assistance under three scenarios:

1. **Without Assistance**. This scenario assumes the Project will not receive any public assistance.

2. **With Full Requested Assistance**. This scenario assumes the Project receives the requested LCRA property tax abatement (90% abatement for 10 years) plus STECM.

3. **With Ordinance-Level of Assistance**. This scenario assumes the Project receives the ordinance-level of LCRA property tax abatement (75% abatement for 10 years) plus STECM.

SB Friedman typically evaluates a project's need for financial assistance using one or more of the following metrics:

1. **Unleveraged Internal Rate of Return (IRR)**. This is the rate of return or discount rate for a project, accounting for initial expenditures to construct the Project (total project costs, net of historic tax credits) and ongoing cash inflows (annual net operating income [NOI] before debt service), as well as a hypothetical sale of the Project at the end of the analysis period.

2. **Stabilized Yield on Cost**. This metric is calculated by dividing NOI before debt service in the first year of stabilized operations by total project costs (net of historic tax credits), and is an indicator of the annual overall return on investment for the Project's financing structure.

3. **Leveraged Internal Rate of Return**. This is the annualized rate of return the Project's equity investors would be projected to realize over their full investment period, including an assumed hypothetical sale of the Project at the end of the analysis period.

4. **Stabilized Cash on Cash Return**. This metric indicates the annual cash return to equity investors once the Project reaches stabilization, and is calculated by dividing net cash flow (after debt service) in the first year of stabilized operations by the total initial equity investment.

SB Friedman evaluated the Project's need for assistance using unleveraged metrics as these metrics evaluate overall Project feasibility rather than returns to specific investors. Small changes in financing can have a substantial impact on leveraged returns; therefore, leveraged returns do not provide an accurate picture of the Project's need for assistance when financing assumptions are preliminary, as they are with this Project. We primarily evaluated the Project's need for assistance based on stabilized yield on cost due to the Developer's intent to hold the Project over the long-term. Less emphasis was given to the unleveraged IRR benchmark, given that the requested LCRA abatement would expire in Year 10 and Project costs are higher than estimated Year 10 reversion values.

SB Friedman made the following adjustments to the Developer's original pro forma for the purpose of analyzing returns and the need for public assistance:

- **Acquisition Price**. The Developer's assumed purchase price of $9.3 million ($37/GSF) is above the range observed by SB Friedman for vacant shell buildings or those being purchased for adaptive reuse redevelopment in the greater downtown area, as well as the 2016 as-is appraisal adjusted to 2018 dollars. Therefore, for purposes of this analysis, SB Friedman recognized an acquisition price of $25/GSF which aligns with comparable sales and the as-is appraisal.

- **Costs Associated with Previous Owners**. The Developer included $650,000 in the Project budget for unpaid costs associated with the previous owner's attempts to redevelop the building, but provided documentation for only $209,000 of these costs. SB Friedman adjusted the Project budget to $209,000 for the purposes of sizing public assistance.

- **Stabilized Residential Vacancy.** The Developer assumed an 8% loss from vacancy, bad debt, and concessions, which is above the range typically observed by SB Friedman for comparable projects. For the purpose of sizing public assistance, a 5% vacancy assumption was assumed.

- **Retail Rent.** The Developer is assuming retail rent of $13.50/SF triple-net (NNN) for the 18,000 SF of ground floor retail space and acknowledged that this as a conservative estimate. The retail rent assumption appears to be below market relative to similar nearby spaces. For the purposes of evaluating the need for public assistance, retail rent was adjusted to $15/SF, the low end of observed ranges for comparable product.

- **Income Escalation and Expense Inflation Adjustment.** The Developer's 1.5% escalation/inflation assumption for income and expenses is conservative relative to other Kansas City projects reviewed by SB Friedman. For purposes of this analysis, SB Friedman adjusted the revenue and expense inflation factors to 2.0%.

- **Reversion Year.** The Developer used Year 10 cash flow in its reversion calculations. SB Friedman's standard forward capping methodology bases reversion value on Year 11 NOI.

- **Cost of Sale**. The Developer assumed a 5% cost of sale in its reversion calculations. SB Friedman analyzed the Project using 3% cost of sale, which is consistent with other projects reviewed in Kansas City.

Risk-adjusted, market-appropriate hurdle rates of return were identified based on recent comparable projects that have moved forward in Kansas City, industry data, and discussions with equity providers and developers. We determined that a stabilized yield on cost of 6.0-7.0% would be reasonable for a project of this type.

As presented in **Figure 6** and in further detail in Appendix **Figures 2B-4B**, SB Friedman estimates that the Project, following the adjustments outlined above, would generate a stabilized yield on cost of 4.6% without public financial assistance. This return is well below typical hurdle rates for projects of this type. With assistance, the Project is projected to achieve a stabilized yield on cost of 5.7% with a 90% LCRA abatement and a stabilized yield on cost of 5.5% with a 75% LCRA abatement. Both metrics are below the identified benchmark range of 6.0-7.0%.

Figure 6. Projected Developer Returns

Returns Metric	No Assistance	90% LCRA Abatement + STECM	75% LCRA Abatement + STECM	Benchmark [1]
Stabilized Yield on Cost (Year 3)	4.6%	5.7%	5.5%	6.0-7.0%
Undiscounted Value of Total Assistance		$4,859,838	$4,230,390	
Discounted Value of Total Assistance at 6.25%		$3,815,213	$3,359,870	
Discounted Value as a Percent of TDC		7.9%	6.9%	

[1] Per industry averages, SB Friedman experience, and recent Kansas City projects
Source: The Bernstein Companies and SB Friedman

Conclusions and Recommendations

The results of our analysis indicate that the Project's need for assistance is being driven by:

1. Achievable rents, which are unable to fully support the rehabilitation costs of the building, and
2. Building inefficiencies, which result in operating costs, as a percentage of revenue, above what would be expected in new construction product.

Project information at the time of our review was preliminary and development costs were adjusted upward by the Developer at several points in our analysis. To bring assumptions in line with comparable projects, SB Friedman made several adjustments to the Developer's pro forma to reduce conservatism, including downward adjustments to the budget and upward adjustments to operating revenues. Even after those adjustments, expected returns appear to be below market-appropriate rates of return with the requested 90% abatement and even lower with the 75% ordinance abatement.

The below-market returns suggest that the Developer will need to further value engineer the Project, increase rents, find additional revenue streams (e.g., ballroom leasing), reduce operating expenses, or some combination of these, to achieve viable rates of return. In our baseline analysis, SB Friedman did not adjust the anticipated pro forma rents of $1.95; however, if the Project were to achieve rents comparable to that of the nearby Power and Light building, the Project would be closer to achieving market-appropriate rates of return with a 5.9% stabilized yield on cost with the 90% LCRA abatement and a 5.8% stabilized yield on cost with the 75% LCRA abatement.

Appendix A

LIMITATIONS OF OUR ENGAGEMENT

Our deliverable 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, Missouri and the Developer during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the deliverable. 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 deliverable, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise analyses or the deliverable to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in state 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 deliverable 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 deliverable should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the deliverable 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 EDCKC, the deliverable 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 Costs

Uses/Development Costs	Developer Budget	SBF Adjusted Budget			
		$	% of TDC	$/GSF	$/Land SF
Hard Construction Costs					
General Conditions	$765,000	$765,000			
Environmental	$350,000	$350,000			
Temporary Facilities	$45,000	$45,000			
Temporary Utilities	$50,000	$50,000			
Storage Containers	$5,000	$5,000			
Fencing	$15,000	$15,000			
Site Signage	$7,500	$7,500			
Mobilization	$155,000	$155,000			
Traffic Control	$5,000	$5,000			
Demolition	$2,400,000	$2,400,000			
Dumpsters for Construction	$60,000	$60,000			
Historical Protection	$45,000	$45,000			
Sitework/Façade Cleaning	$45,000	$45,000			
Paving	$48,500	$48,500			
Bicycle Racks	$12,000	$12,000			
Concrete Repairs	$85,000	$85,000			
Coring and Saw Cutting	$145,000	$145,000			
CMU/Concreete	$38,000	$38,000			
Structural Steel	$50,000	$50,000			
Stairs ADA Compliant	$80,000	$80,000			
Rough Carpentry	$40,000	$40,000			
Blocking/Kitchen Metal	$31,000	$31,000			
Base/Window Sills	$200,000	$200,000			
Millwork	$455,000	$455,000			
Counter Tops	$505,000	$505,000			
Labor	$58,000	$58,000			
Roofing New	$230,000	$230,000			
Fire Stopping Labor and Materials	$255,000	$255,000			
Steel Door Units	$75,000	$75,000			
Stair Tower Doors	$25,000	$25,000			
Pre-Hung Door Units	$375,000	$375,000			
Access Panels	$15,000	$15,000			
Door Hardware	$55,000	$55,000			
Caulking	$10,000	$10,000			
Partitions	$2,331,000	$2,331,000			
Amenities	$1,460,000	$1,460,000			
Drywall Ceilings	$950,000	$950,000			
Carpet	$250,000	$250,000			
Wood Flooring	$634,000	$634,000			
Ceramic Tile	$315,000	$315,000			
Painting	$408,500	$408,500			
Exterior Painting	$115,000	$115,000			
Closet Shelving	$75,000	$75,000			
Bath Accessories	$60,000	$60,000			
Mail Boxes	$45,000	$45,000			
Exterior Signage	$10,000	$10,000			
Interior Signage	$5,000	$5,000			
Site Clean Up	$125,000	$125,000			
Appliances	$750,000	$750,000			
Install Appliances	$215,000	$215,000			
Gym Equipment	$35,000	$35,000			
Window Treatment	$186,790	$186,790			
Final Cleaning	$75,000	$75,000			
Security System	$100,000	$100,000			
Fire Alarm	$215,000	$215,000			
Elevator Renovations Ottis Letter	$425,000	$425,000			
Sprinkler	$1,050,000	$1,050,000			
Plumbing	$4,250,000	$4,250,000			
Metering	$95,000	$95,000			
HVAC	$4,850,000	$4,850,000			
Electric/Cable	$4,895,000	$4,895,000			
BC1 Consulting	$415,000	$415,000			
Supervision 18 Months	$315,000	$315,000			
Construction Management (3.5%)	$1,096,735	$1,096,735			
Owner Contingency	$1,500,000	$1,500,000			
Total Hard Construction Costs	**$33,987,025**	**$33,987,025**	**70.1%**	**$134**	

Table 1B. Detailed Development Costs- Continued

Uses/Development Costs	Developer Budget	SBF Adjusted Budget $	% of TDC	$/GSF	$/Land SF
Acquisition Costs					
Acquisition/Purchase Price	$9,300,000	$6,329,800			
Costs Associated with Previous Owners	$650,000	$209,000			
Misc Closing Cost	$245,000	$245,000			
Total Acquisition Costs	**$10,195,000**	**$6,783,800**	**14.0%**	**$27**	**$481**
Soft Costs					
Predevelopment Costs					
Architect	*$862,400*	*$862,400*			
Mechanical Engineering	*$75,000*	*$75,000*			
Plumbing Engineering	*$50,000*	*$50,000*			
Electrical Engineering	*$70,000*	*$70,000*			
Fire Protection Engineering	*$85,000*	*$85,000*			
Structural Engineering	*$10,000*	*$10,000*			
Window Consultant	*$100,000*	*$100,000*			
Systems & Material Purchasing	*$110,000*	*$110,000*			
Due Dilligence	*$66,000*	*$66,000*			
Permits	*$619,398*	*$619,398*			
Travel Costs	*$15,000*	*$15,000*			
Legal	*$75,000*	*$75,000*			
Carry Cost during Construction					
Utilities	*$115,790*	*$115,790*			
Taxes	*$470,000*	*$470,000*			
Marketing	*$40,000*	*$40,000*			
Insurance	*$91,000*	*$91,000*			
Payroll	*$416,000*	*$416,000*			
Services	*$87,500*	*$87,500*			
Reserves	*$9,000*	*$9,000*			
Admin	*$46,700*	*$46,700*			
Total Soft Costs	**$3,413,788**	**$3,413,788**	**7.0%**	**$13**	
Financing Costs					
Loan Costs	$560,000	$560,000			
Interest Carry & Fees	$2,764,022	$2,764,022			
Total Financing Costs	**$3,324,022**	**$3,324,022**	**6.9%**	**$13**	
Developer Fees					
Developer Fee	$950,000	$950,000			
Total Developer Fees	**$950,000**	**$950,000**	**2.0%**	**$4**	
TOTAL DEVELOPMENT COSTS	**$51,869,835**	**$48,458,635**	**100.0%**	**$191**	

Source: The Bernstein Companies and SB Friedman

Figure 2B. Cash Flow Pro Forma: Without Assistance

				STABILIZATION							
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
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											
Conventional Debt	-$19,306,258										
Historic Tax Credit Equity	-$8,718,933										
Cash Equity	-$20,433,444										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Reversion Proceeds (Year 10)											$33,780,490
TOTAL		**$474,078**	**$1,759,417**	**$1,821,854**	**$1,867,702**	**$1,905,056**	**$1,952,756**	**$1,991,811**	**$2,041,439**	**$2,082,268**	**$35,914,390**
Development Uses											
Debt Service		$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483	$1,457,483
Debt Repayment (Year 10)											$14,626,135
Equity Distribution		-$983,405	$301,934	$364,371	$410,219	$447,573	$495,273	$534,328	$583,956	$624,785	$19,830,772
TOTAL		**$474,078**	**$1,759,417**	**$1,821,854**	**$1,867,702**	**$1,905,056**	**$1,952,756**	**$1,991,811**	**$2,041,439**	**$2,082,268**	**$35,914,390**
Debt Coverage Ratio		0.33	1.21	1.25	1.28	1.31	1.34	1.37	1.40	1.43	1.46
Unleveraged Cash Flow - No Assistance											
Total Project Costs	-$48,458,635										
Less HTC Equity or Upfront Assistance	$8,718,933										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Reversion Proceeds (Year 10)											$33,780,490
TOTAL	**-$39,739,702**	**$474,078**	**$1,759,417**	**$1,821,854**	**$1,867,702**	**$1,905,056**	**$1,952,756**	**$1,991,811**	**$2,041,439**	**$2,082,268**	**$35,914,390**
Annual Yield on Cost		**1.2%**	**4.4%**	**4.6%**	**4.7%**	**4.8%**	**4.9%**	**5.0%**	**5.1%**	**5.2%**	**5.4%**
Unleveraged IRR	**3.2%**										
Leveraged Cash Flow - No Assistance											
Equity Contribution	-$20,433,444										
Equity Distribution		-$983,405	$301,934	$364,371	$410,219	$447,573	$495,273	$534,328	$583,956	$624,785	$19,830,772
TOTAL	**-$20,433,444**	**-$983,405**	**$301,934**	**$364,371**	**$410,219**	**$447,573**	**$495,273**	**$534,328**	**$583,956**	**$624,785**	**$19,830,772**
Annual Cash-on-Cash Return		**-4.8%**	**1.5%**	**1.8%**	**2.0%**	**2.2%**	**2.4%**	**2.6%**	**2.9%**	**3.1%**	**3.3%**
Leveraged IRR	**1.0%**										

Source: The Bernstein Companies and SB Friedman

Figure 3B. Cash Flow Pro Forma: Full Requested Assistance (90% Abatement)

				STABILIZATION							
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
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											
Conventional Debt	-$23,216,873										
Historic Tax Credit Equity	-$8,718,933										
Cash Equity	-$16,522,829										
STECM	$1,083,154										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Savings from Property Tax Assistance		$360,725	$360,725	$369,029	$369,029	$377,499	$377,499	$386,138	$386,138	$394,950	$394,950
Reversion Proceeds (Year 10)											$33,780,490
TOTAL		**$834,803**	**$2,120,142**	**$2,190,883**	**$2,236,731**	**$2,282,555**	**$2,330,255**	**$2,377,950**	**$2,427,577**	**$2,477,218**	**$36,309,341**
Development Uses											
Debt Service		$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706	$1,752,706
Debt Repayment (Year 10)											$17,588,760
Equity Distribution		-$917,903	$367,436	$438,177	$484,025	$529,849	$577,549	$625,244	$674,871	$724,512	$16,967,875
TOTAL		**$834,803**	**$2,120,142**	**$2,190,883**	**$2,236,731**	**$2,282,555**	**$2,330,255**	**$2,377,950**	**$2,427,577**	**$2,477,218**	**$36,309,341**
Debt Coverage Ratio		0.48	1.21	1.25	1.28	1.30	1.33	1.36	1.39	1.41	1.44
Unleveraged Cash Flow - Full Assistance											
Total Project Costs	-$48,458,635										
Less HTC Equity or Upfront Assistance	$8,718,933										
Less STECM	$1,083,154										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Savings from Property Tax Assistance		$360,725	$360,725	$369,029	$369,029	$377,499	$377,499	$386,138	$386,138	$394,950	$394,950
Reversion Proceeds (Year 10)											$33,780,490
TOTAL	**-$38,656,548**	**$834,803**	**$2,120,142**	**$2,190,883**	**$2,236,731**	**$2,282,555**	**$2,330,255**	**$2,377,950**	**$2,427,577**	**$2,477,218**	**$36,309,341**
Annual Yield on Cost		**2.2%**	**5.5%**	**5.7%**	**5.8%**	**5.9%**	**6.0%**	**6.2%**	**6.3%**	**6.4%**	**6.5%**
Unleveraged IRR	**4.5%**										
Leveraged Cash Flow - Full Assistance											
Equity Contribution	-$16,522,829										
Less STECM	$1,083,154										
Equity Distribution		-$917,903	$367,436	$438,177	$484,025	$529,849	$577,549	$625,244	$674,871	$724,512	$16,967,875
TOTAL	**-$15,439,675**	**-$917,903**	**$367,436**	**$438,177**	**$484,025**	**$529,849**	**$577,549**	**$625,244**	**$674,871**	**$724,512**	**$16,967,875**
Annual Cash-on-Cash Return		**-5.9%**	**2.4%**	**2.8%**	**3.1%**	**3.4%**	**3.7%**	**4.0%**	**4.4%**	**4.7%**	**5.0%**
Leveraged IRR	**3.0%**										

Source: The Bernstein Companies and SB Friedman

Figure 4B. Cash Flow Pro Forma: Full Adjusted Assistance (75% Abatement)

				STABILIZATION							
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
ADJUSTED 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											
Conventional Debt	-$22,565,104										
Historic Tax Credit Equity	-$8,718,933										
Cash Equity	-$17,174,598										
STECM	$1,083,154										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Savings from Property Tax Assistance		$300,604	$300,604	$307,524	$307,524	$314,582	$314,582	$321,782	$321,782	$329,125	$329,125
Reversion Proceeds (Year 10)											$33,780,490
PV of Remaining Public Asistance (Year 11+)											$0
TOTAL		**$774,682**	**$2,060,021**	**$2,129,378**	**$2,175,226**	**$2,219,638**	**$2,267,339**	**$2,313,593**	**$2,363,221**	**$2,411,393**	**$36,243,516**
Development Uses											
Debt Service		$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502	$1,703,502
Debt Repayment (Year 10)											$17,094,989
Equity Distribution		-$928,820	$356,519	$425,876	$471,724	$516,136	$563,836	$610,091	$659,719	$707,891	$17,445,024
TOTAL		**$774,682**	**$2,060,021**	**$2,129,378**	**$2,175,226**	**$2,219,638**	**$2,267,339**	**$2,313,593**	**$2,363,221**	**$2,411,393**	**$36,243,516**
Debt Coverage Ratio		0.45	1.21	1.25	1.28	1.30	1.33	1.36	1.39	1.42	1.45
Unleveraged Cash Flow - Adjusted Assistance											
Total Project Costs	-$48,458,635										
Less HTC Equity or Upfront Assistance	$8,718,933										
Less STECM	$1,083,154										
Net Operating Income		$474,078	$1,759,417	$1,821,854	$1,867,702	$1,905,056	$1,952,756	$1,991,811	$2,041,439	$2,082,268	$2,133,900
Savings from Property Tax Assistance		$300,604	$300,604	$307,524	$307,524	$314,582	$314,582	$321,782	$321,782	$329,125	$329,125
Reversion Proceeds (Year 10)											$33,780,490
TOTAL	**-$38,656,548**	**$774,682**	**$2,060,021**	**$2,129,378**	**$2,175,226**	**$2,219,638**	**$2,267,339**	**$2,313,593**	**$2,363,221**	**$2,411,393**	**$36,243,516**
Annual Yield on Cost		**2.0%**	**5.3%**	**5.5%**	**5.6%**	**5.7%**	**5.9%**	**6.0%**	**6.1%**	**6.2%**	**6.4%**
Unleveraged IRR	**4.3%**										
Leveraged Cash Flow - Adjusted Assistance											
Equity Contribution	-$17,174,598										
Less STECM	$1,083,154										
Equity Distribution		-$928,820	$356,519	$425,876	$471,724	$516,136	$563,836	$610,091	$659,719	$707,891	$17,445,024
TOTAL	**-$16,091,444**	**-$928,820**	**$356,519**	**$425,876**	**$471,724**	**$516,136**	**$563,836**	**$610,091**	**$659,719**	**$707,891**	**$17,445,024**
Annual Cash-on-Cash Return		**-5.8%**	**2.2%**	**2.6%**	**2.9%**	**3.2%**	**3.5%**	**3.8%**	**4.1%**	**4.4%**	**4.7%**
Leveraged IRR	**2.7%**										

Source: The Bernstein Companies and SB Friedman

Figure 5B. Property Tax Schedule

Mark Twain Tower: Abatement Schedule									
				90% Abatement			75% Abatement		
Abatement Year	Calendar Year	Projected Assessed Value [1][2]	Property Taxes Before Abatement [3] [4]	Abatement %	Property Taxes After Abatement [Paid to Taxing Jurisdictions]	Estimated LCRA Benefit to Project	Abatement %	Property Taxes After Abatement [Paid to Taxing Jurisdictions]	Estimated LCRA Benefit to Project
0	2019	$1,520,640	$60,521						
1	2020	$5,795,567	$461,327	90.0%	$100,602	$360,725	75.0%	$160,723	$300,604
2	2021	$5,795,567	$461,327	90.0%	$100,602	$360,725	75.0%	$160,723	$300,604
3	2022	$5,911,479	$470,554	90.0%	$101,525	$369,029	75.0%	$163,030	$307,524
4	2023	$5,911,479	$470,554	90.0%	$101,525	$369,029	75.0%	$163,030	$307,524
5	2024	$6,029,708	$479,965	90.0%	$102,466	$377,499	75.0%	$165,382	$314,582
6	2025	$6,029,708	$479,965	90.0%	$102,466	$377,499	75.0%	$165,382	$314,582
7	2026	$6,150,302	$489,564	90.0%	$103,426	$386,138	75.0%	$167,782	$321,782
8	2027	$6,150,302	$489,564	90.0%	$103,426	$386,138	75.0%	$167,782	$321,782
9	2028	$6,273,308	$499,355	90.0%	$104,405	$394,950	75.0%	$170,230	$329,125
10	2029	$6,273,308	$499,355	90.0%	$104,405	$394,950	75.0%	$170,230	$329,125
11	2030	$6,398,775	$509,342	0.0%	$509,342	$0	0.0%	$509,342	$0
12	2031	$6,398,775	$509,342	0.0%	$509,342	$0	0.0%	$509,342	$0
13	2032	$6,526,750	$519,529	0.0%	$519,529	$0	0.0%	$519,529	$0
14	2033	$6,526,750	$519,529	0.0%	$519,529	$0	0.0%	$519,529	$0
15	2034	$6,657,285	$529,920	0.0%	$529,920	$0	0.0%	$529,920	$0
16	2035	$6,657,285	$529,920	0.0%	$529,920	$0	0.0%	$529,920	$0
17	2036	$6,790,431	$540,518	0.0%	$540,518	$0	0.0%	$540,518	$0
18	2037	$6,790,431	$540,518	0.0%	$540,518	$0	0.0%	$540,518	$0
19	2038	$6,926,239	$551,329	0.0%	$551,329	$0	0.0%	$551,329	$0
20	2039	$6,926,239	$551,329	0.0%	$551,329	$0	0.0%	$551,329	$0
21	2040	$7,064,764	$562,355	0.0%	$562,355	$0	0.0%	$562,355	$0
22	2041	$7,064,764	$562,355	0.0%	$562,355	$0	0.0%	$562,355	$0
23	2042	$7,206,060	$573,602	0.0%	$573,602	$0	0.0%	$573,602	$0
24	2043	$7,206,060	$573,602	0.0%	$573,602	$0	0.0%	$573,602	$0
25	2044	$7,350,181	$585,074	0.0%	$585,074	$0	0.0%	$585,074	$0
TOTAL, Years 1-25 (Undiscounted)			**$12,959,797**		**$9,183,113**	**$3,776,684**		**$9,812,560**	**$3,147,237**
Years 1-10			**$4,801,530**		**$1,024,846**	**$3,776,684**		**$1,654,294**	**$3,147,237**
Years 11-25			**$8,158,267**		**$8,158,267**	**$0**		**$8,158,267**	**$0**

[1] Projected assessed value was provided by the Developer and confirmed by EDCKC

[2] Developer assumed a 2% biennial increase in assessed value starting in Year 3

[3] Base taxes, per 2018 assessed value and tax rates and appears to reflect the Chapter 353 abatement, which is currently 50% of taxes above the previous base taxes

[4] Assumed 2017 tax rate, 7.96%, as indicated by EDCKC

Source: The Bernstein Companies, EDCKC, and SB Friedman