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EXHIBIT 5A
LCRA 12/19/18

MEMO ADDENDUM

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

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RE: Preliminary Financial Review of the Platform Ventures Project

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SB Friedman Development Advisors (SB Friedman) submitted to the Economic Development Corporation of Kansas City (EDCKC) a draft memorandum, dated May 17, 2018, outlining our preliminary financial review of the Platform Ventures project, which includes related hotel, multifamily and office/garage projects in downtown Kansas City (the "Project"). Project components are located on portions of the block bound by Wyandotte Street, 13th Street, Baltimore Avenue and 12th Street (the "Site") and include:

- Conversion of the historic Kansas City Club (KC Club) building into a hotel ("Hotel Component");
- Conversion of the historic Hotel Muehlebach building into rental apartments ("Apartment Component"); and
- Construction of a new office building with structured parking to support the entire Project ("Office/Garage Component").

Since our May review, Platform Ventures (the "Developer") has submitted updates to the Project program and assumptions. The most significant update to the pro forma includes the removal of the Hotel Component. It is our understanding that the Hotel Component is currently moving forward and the Developer is not requesting assistance through EDCKC for that component. The Developer's modified request for assistance includes:

- Sales tax exemption on construction materials (STECM) for the Apartment and Office/Garage components;
- Payment of $250,000 annually (over 25 years, with 5% increases every 5 years) through a parking agreement with the City of Kansas City (the "City") which would make parking spaces available to the public after business hours and on weekends at no cost; and
- Abatement of property taxes (above current predevelopment taxes) generated by the Apartment and Office/Garage Components for 25 years under the Land Clearance for Redevelopment Authority (LCRA) (75% abatement in Years 1-10; 37.5% abatement in Years 11-25).

Developer Pro Forma Assumptions

Outlined below are the material updates to the Project pro forma.

DEVELOPMENT PROGRAM

- **Apartment Component.** The Developer increased the number of residential units from 117 to 191. The additional 74 units are being accommodated within the existing building envelope, resulting in a decrease in average unit size, from approximately 900 square feet (SF) to 570 SF.

- **Office/Garage Component.** The Developer increased rentable office space from 70,000 SF to 100,000 SF, and also increased the number of structured parking spaces from 360 to 400.

PROJECT COSTS

- **Apartment Component Costs.** Total development costs (TDC) for the Apartment Component increased from $25.6 million to $29.8 million, with hard costs increasing from $150 to approximately $180 per gross SF. The Developer did not provide further backup information for the increase in costs (i.e., construction cost estimates). The revised Project hard costs appear to be above the range observed for comparable historic rehabilitation projects observed by SB Friedman in downtown Kansas City, which have ranged from $150-170 per gross SF. However, costs associated with the rehabilitation of structures can be difficult to benchmark, as property conditions vary by property. Furthermore, the increase in costs appear to be driven by the inclusion of 74 additional units within the same building envelope. Given these circumstances, SB Friedman also evaluated the Project on a hard costs per unit basis. The results of the per-unit analysis indicate that costs are on the low end of the comparables set and, given the small average unit size, appear to be reasonable.

- **Office/Garage Component Hard Costs.** Total development costs for the Office/Garage Component increased from $29.0 million to $42.6 million. The Developer did not provide detailed backup for these costs (i.e., construction cost estimates) or a cost breakdown between the office and garage. Therefore, for the purposes of this analysis, SB Friedman made several assumptions to segment and evaluate costs, including:

  - Carrying over the Developer's previous cost assumption of $26,000 per parking space to isolate hard costs related to the office development alone; and
  - Estimating a rentable-to-gross SF ratio of 85% for the Office Component (within typical range for new construction office) plus the 10,000 square feet of amenity space outlined in previous plans, to allow for a calculation of office costs per gross SF.

  This results in hard costs for the Office Component of approximately $20.0 million ($160 per gross SF, net of tenant improvement (TI) costs), an increase from $12.2 million ($126 per gross SF) in the May review. While costs have increased, the $160 per gross SF appears to be reasonable based on comparable new office projects observed by SB Friedman in Kansas City and elsewhere, which ranged from $140-170 per gross SF.

- **Office/Garage Component Tenant Improvement Costs.** TI costs increased from $31 to $50 per SF, which appears to be reasonable relative to comparable projects in Kansas City and elsewhere, particularly given the increase in office rents, which is intended to offset the increase in TI costs.

PROJECT REVENUES

- **Apartment Component.** Monthly apartment rents increased on a per-SF basis from $1.77 (adjusted to 2020 dollars using the Developer's 2.0% escalation assumption) to $1.98, with chunk rents decreasing from an average of $1,610 (adjusted to 2020 dollars) to $1,123. Unit sizes also decreased from an average of 905 to 570

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SF. The Developer did not submit a market study indicating demand for the smaller units at this price point, and indicated that the mix of units will be finalized as part of the design, zoning and permitting process.

Per the Developer, these rents account for a commitment to set aside 10% of units for households earning 80% or less of area median income (AMI). Per the Novogradac Rent and Income Limit Calculator, maximum rent for 1-bedroom units for households earning 80% AMI in 2018 is $1,200 in Jackson County, indicating that the average Project chunk rent would be affordable to these households. On a per-SF basis, rents appear to be reasonable relative to available comps; however, the apartment units are small relative to the market and direct comparables for units of this size appear to be limited.

Table 1. Apartment Comparables Summary

Property	Year Built	Units	Percent Vacant	SF (Avg)	Rent/Unit (Avg) [1]	Rent/SF (Avg) [1]
PROJECT (Current)	**Proposed**	**191**	**5.0%**	**570**	**$1,123**	**$1.98**
PROJECT (May Review)	**Proposed**	**117**	**5.0%**	**905**	**$1,610**	**$1.77 [2]**
Power & Light Apartments	2016	291	10.0% [3]	985	$1,868	$1.90
531 Grand	2017	185	4.3%	823	$1,443	$1.76
River Market West	2015	137	3.7%	836	$1,340	$1.60
Apex on Quality Hill	2017	138	29.7% [3]	1,075	$1,647	$1.53
Sky on Main	2016	41	9.8% [3]	937	$1,606	$1.76
Weighted Average (2020 dollars)					**$1,725**	**$1.85**

[1] Rents adjusted to 2020 dollars using Developer's 2.0% annual escalation assumption
[2] Reflects market-rate rents only
[3] Project appears to be in lease-up
Source: CoStar, Platform Ventures, *SB Friedman*

- **Office/Garage Component.** Office rents increased from approximately $26 per SF (gross) to approximately $28 per SF (gross), inclusive of parking. The increased rent is in line with the market assessment conducted as part of our May review and is at the high-end of the downtown market.

Conclusions and Recommendations

The updated Project features programmatic changes that resulted in increases to both project costs and revenues for the two remaining components. As currently presented by the Developer, the revised Project appears to require public assistance in order to be financially feasible. In our May review, we concluded that with the full amount of public assistance, the Project would satisfy the downtown policy goals of providing affordable apartment units and additional parking without exceeding market-appropriate returns. The updated Project also appears to satisfy the downtown policy goals without exceeding market returns with the full amount of requested assistance, as presented in **Figure 1**.

However, the updated Project assumptions were preliminary at the time of our review and limited back-up documentation was available (i.e., third-party construction cost estimates and a market study). In addition, the Developer indicated the residential unit mix had not yet been finalized; our recommendation is related to the current number of residential units (191) and price points indicated above. We therefore recommend that the EDCKC conduct a true-up that reconciles the underwriting assumptions with actual costs incurred and market rents at completion. If there are material cost savings, changes in unit mix, or if rents substantially outperform pro forma projections, public assistance could be modified. In addition, if not already required under standard deal terms, all income-qualified affordable units should be required to remain affordable at 80% of AMI for the entire duration of the assistance.

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Figure 1. Projected Developer Returns

Returns Metric	No Assistance	Full Requested Assistance	Benchmark [1]
Stabilized Yield on Cost	5.5%	6.6%	6.8%
Unleveraged IRR	5.7%	7.7%	7.8%
Undiscounted Value of Total Assistance		$17.9 M	
Discounted Value of Assistance [2]		$9.3 M	
Discounted Value as a Percent of TDC (net of HTC)		12.9%	

[1] Per industry averages, SB Friedman experience, and recent Kansas City projects

[2] Discounted at 6.0% for the Apartment Component and 7.0% for the Office/Garage Component

Source: Platform Ventures and SB Friedman

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