

MEMORANDUM

TO: Teig Whaley-Smith, Economic Development Director
Milwaukee County

FROM: Tony Smith, *S. B. Friedman & Company*
Direct: (312) 424-4254; Email: tsmith@sbfriedman.com

DATE: October 13, 2014

RE: **Preliminary Financial Review of The Couture Project**

SB Friedman Development Advisors (SB Friedman) has been engaged by Milwaukee County to conduct a preliminary financial review of The Couture, a proposed mixed-use residential and retail development with a public transportation concourse and public amenities (collectively, the “Project”). The Project is proposed for the southwest corner of Lincoln Memorial Drive and Michigan Street in the City of Milwaukee on the site of the existing Milwaukee County Downtown Transit Center (the “Site”) currently owned by Milwaukee County (“County”). In 2012, the County issued a request for information for the acquisition and private redevelopment of the approximately 3-acre Site with the Developer’s proposal ultimately being selected. Barrett Visionary Development (“Developer”) has requested two forms of public assistance to make the Project financially feasible:

- A writedown of the land sale price to \$500,000 from the County; and
- \$17.5 million in Tax Increment District (TID) financing assistance, through a partnership with the City of Milwaukee (“City”), to fund non-revenue-generating publicly-accessible amenities and a transportation concourse within the Project.

This memo includes a preliminary review of the following:

- Key Project Characteristics
- Key Developer Pro Forma Assumptions, including Revenue, Soft Costs, and Returns on Cost
- Need for Requested Financial Assistance

Our preliminary review of the Developer’s pro forma indicates that the requested 94.4% land writedown and \$17.5 million in TID financial assistance to fund the public components of the Project appear to be needed for the Developer to achieve viable rates of return and attract financing to successfully construct the Project. Without the requested assistance, it appears unlikely that development would have the means to move forward.

Key Project Characteristics

The development program for the \$122 million proposed Project is presented in **Table 1** below and includes the following:

- 302 market-rate apartments ranging from 863 to 1,593 square feet;
- 49,835 square feet of retail and restaurant space;
- 570 spaces of structured parking to accommodate on-site commercial and residential uses as well as general area parking needs;
- A pedestrian street and transportation concourse that would serve as a major destination point for several modes of public transit including Milwaukee County buses, Bublr bikes and the proposed Milwaukee Streetcar line; and
- A public rooftop park.

Table 1: Proposed Development Program

Private Components	Program
Market Rate Apartments	302
Restaurant & Retail Space	49,835 SF
Parking Spaces	
Public	147
Private	423
Total	570

Source: Barrett Visionary Development (8-29-14)

Public Components	SF
Rooftop Public Park	29,385
Public Transportation Concourse	20,855
Visitor Walkways	12,940
Public Pedestrian Visitor Plaza	9,150
Core/Common Space	7,394
Public Access Stairs	1,715
Total Public Areas	81,439

Source: Barrett Visionary Development (9-12-14)

Developer Pro Forma Assumptions

SB Friedman has reviewed the initial pro forma, as submitted to the City by the Developer on August 29, 2014, and has engaged the Developer in subsequent conversations to understand underlying assumptions regarding the development budget, soft costs, financing, lease-up, and operations. The costs and assumptions included within the pro forma are preliminary in nature due to the Developer's lack of site control with clear title. *SB Friedman* anticipates that the pro forma assumptions will necessarily be refined as the Developer advances project design, obtains more detailed construction pricing, and secures letters of intent from prospective lenders and retail tenants.

Preliminary total development costs are presented in **Table 2** below, with a full breakdown of uses presented in **Table 7** in the Appendix.

Table 2: Preliminary Development Budget

Budget Item	Cost
Acquisition Costs	\$500,000
Hard Construction Costs	\$98,091,325
Soft Construction Costs	\$14,420,791
Financing Costs	\$4,295,577
Developer Fee	\$4,962,308
Total Development Cost	\$122,000,000

Source: Barrett Visionary Development

Key uses within the development budget include the following:

- **Land Acquisition.** The Developer is proposing to acquire the Site for \$500,000 from the County. The County would place these funds into a litigation reserve to defend title of the land, if necessary.
- **Hard Construction Costs.** A total of \$92.6 million in base building costs are included in the Developer’s preliminary construction budget based on the Developer’s schematic designs for the project and preliminary pricing discussions with contractors. The scope of *SB Friedman’s* review does not include a full independent review of hard construction costs due to their preliminary nature. *SB Friedman’s* understands that the City will conduct a more detailed review of the construction costs associated with the public components of the Project. A breakdown of hard costs by building component, as provided by the Developer, is presented in **Table 3** below. In addition to vertical construction costs, these figures include \$4.0 million in demolition work and \$2.7 million in construction contingency.

Table 3: Hard Construction Cost Estimates

Budget Item	Building	Demolition & Site Work	Contingency	Total Contract
Residential	\$56,300,000	\$1,896,352	\$1,745,891	\$59,942,243
Residential Parking	\$8,900,000	\$2,184,640	\$332,539	\$11,417,179
Public Parking	\$3,150,000	\$269,199	\$102,576	\$3,521,775
Retail/Restaurant	\$6,000,000	\$470,641	\$194,119	\$6,664,760
Public Areas	\$11,550,000	\$1,346,114	\$386,883	\$13,282,997
Total Hard Construction Costs	\$85,900,000	\$4,000,000	\$2,697,000	\$92,597,000

Source: Barrett Visionary Development

- **Soft Costs.** A total of \$14.4 million in soft costs are included in the Project budget. For benchmarking purposes, “soft costs” are defined here to include architectural and engineering costs; construction management, professional and leasing fees; and expenses associated with taxes and insurance during construction, but not to include financing costs or reserves. *SB Friedman* benchmarked overall soft costs as defined above as a percentage of hard costs for The Couture against recently proposed new construction residential developments that have received or been considered for TID gap financing assistance in Milwaukee. As illustrated in **Table 4** below, Couture soft costs are estimated at 10.5% of total hard costs, falling in line with the ranges typically observed by *SB Friedman*.

Table 4: Soft Construction Cost Benchmarks

Development	Soft Costs as a Percentage of Hard Costs [1]
Moderne	8.0%
Bookends (as proposed)	10.5%
North End Phase 2	11.1%
Average, Recent Downtown Residential Projects	9.9%
The Couture	10.5%

[1] Less reserves and financing costs

Source: Barrett Visionary Development

- **Financing Costs.** Approximately \$4.0 million in financing costs have been included in the Project budget. *SB Friedman* has validated the Developer's calculations for construction interest based on the current development budget, financing assumptions, and construction draw schedule.
- **Tenant Improvement Allowance.** A preliminary tenant improvement (TI) allowance of \$3.7 million for retail tenants, which equals approximately \$74 per square foot, is included in the Developer's Project uses. This figure can vary widely by tenant type; however, the Developer's assumed level of TI allowance is commensurate with tenants that would require a higher level of buildout contribution, such as restaurants.
- **Developer Fee.** Approximately \$4.7 million in developer fee has been included in the Project budget. This constitutes approximately 3.85% of total development costs. *SB Friedman* has benchmarked developer fees for similar recent residential developments in Milwaukee, as presented in **Table 5** below. The amount of developer fee included in the Project budget is within the range observed in recent projects.

Table 5: Developer Fee Benchmarks

Development	Developer Fee as a Percentage of Total Development Cost
Moderne	3.74%
Bookends (as proposed)	4.00%
North End Phase 2	3.89%
Average, Recent Downtown Residential Projects	3.88%
<i>The Couture</i>	3.85%

Source: Barrett Visionary Development

DEVELOPER PROPOSED SOURCES

The Developer proposes to finance the Project with the sources outlined below. Financing assumptions from the pro forma submitted on August 29, 2014 are estimates based on preliminary conversations between the Developer and potential lenders, and it is our understanding that term sheets or letters of intent have not yet been obtained by the Developer to date due to the preliminary stage of the project. In addition to the requested TID financing, the Developer's anticipated private funding sources include:

- **Senior Debt.** The Developer anticipates \$79.4 million in conventional financing assuming a 1.25x debt coverage ratio at stabilization. The Developer's pro forma assumes interest-only payments through stabilization at a 5.0% interest rate, followed by amortization over a 30-year period with a 5.5% interest rate.
- **Developer Equity.** The Developer anticipates raising \$25.1 million in equity to finance the Project, including up to approximately \$5 million from the developer and current partners, and \$20 million in outside investor funds.

The Developer's anticipated equity contribution to the Project is substantial, and the scale of this contribution is such that it is unlikely that the funding can only be raised from the Developer and close associates/affiliates. Therefore, it is imperative that the Project deliver levels of return that are sufficient

to attract substantial outside investor equity. *SB Friedman* also notes that, per the Developer's current pro forma, debt coverage (as opposed to a loan-to-value or loan-to-cost ratio) is the limiting factor on how much senior debt can be raised. A full breakdown of sources, as submitted by the Developer, is presented in **Table 7** in the Appendix.

DEVELOPER CASH FLOW ASSUMPTIONS

SB Friedman has reviewed the Developer's preliminary pro forma and compared key cash flow assumptions with those outlined by two available market studies: a draft residential market study prepared by Appraisal Research Counselors ("Market Study"), dated July 2014, and a draft parking study prepared by Desman Associates ("Parking Study"), dated August 2014. Key assumptions from the pro forma are described below.

- **Rental Residential Income.** Cash flow from the residential component constitutes 82% of effective gross income (EGI) at stabilization. Projected rents range from \$1,620 for a studio unit to \$6,869 for a penthouse unit, or \$1.83 to \$3.50 per square foot. Penthouses rents per square foot are significantly higher in the Developer's pro forma than in the Market Study, while smaller units on lower floors have lower rents per square foot than projected. However, variations are approximately offsetting, yielding an overall average of \$2.34 per square foot in average rental rate in the Project pro forma as compared to \$2.39 per square foot projected in the Market Study.
- **Retail Income.** The retail component comprises a substantially smaller share of projected EGI (13%). Gross retail rents are assumed to average \$32/sf in the Developer pro forma. Due to the preliminary nature of the project, no leasing plan or market study for the retail component is yet available. However, *SB Friedman* reviewed prevailing area rents using CoStar. This initial analysis suggested that the Developer's assumed rents are generally at the top of or higher than prevailing market range currently found in Downtown Milwaukee and in mixed-use projects in areas such as the Third Ward and Eastside. However, the signature location of the Project and substantial allowance for tenant buildout are likely to be supportive of rents at or above the top of existing ranges.
- **Parking.** Parking rates account for 6% of EGI at stabilization, with the Developer projecting \$375 in monthly revenue from the public spaces and \$200 in monthly revenue from the residential spaces. Both of these assumptions are significantly higher than those projected in the Parking Study, which concludes \$135 for the public spaces and \$175 for the residential spaces. Conversations with the Developer indicate that spaces will likely be leased to neighboring office developments during the day and then open for retail and public uses during the evenings and weekends, creating higher utilization rates that may account for the higher gross revenue per space.
- **Residential Absorption.** The pro forma assumes 12 residential units are absorbed per month, close to the midpoint of the 10-15 unit per month conclusion reached in the Market Study. This absorption pace is in line with absorption at the Moderne and 1610 on Water residential developments. However, as noted in the Market Study, the recent North End Phase 2 development achieved substantially higher absorption, leasing 26 residential units per month. While absorption is assumed to be similar to rates achieved in the Moderne development, the Developer's leasing assumptions may be somewhat conservative due to the Project's marquee

location, its smaller average unit sizes, and the fact that the Developer assumes no pre-leasing will occur prior to building opening.

- **Income and Expense Escalation.** Income and expenses in the Developer's pro forma do not escalate until stabilization in Year 7. Upon stabilization, residential rental rates escalate at 2.7% annually, retail and parking rental income escalates at 3.0% annually, and expenses inflate 2.5% annually.

As set forth in the points above, *SB Friedman* notes a mixture of Developer assumptions in the pro forma that may be somewhat conservative (e.g. pre-leasing, starting point for rent escalation, residential rents) and others that may be somewhat aggressive (e.g. parking revenue per space, rate of rent growth vs. expense growth). A certain level of conservatism is appropriate and typical at the early stages of project design. Overall, *SB Friedman* did not make adjustments to the Developer's income or expense assumptions based on these observations. The Developer's absorption schedule and operating pro forma are presented in **Tables 8 and 9** in the Appendix.

Review of Need for Financial Assistance

SB Friedman has conducted a preliminary analysis of the Developer's pro forma to determine whether a writedown of land cost from the County and TID assistance from the City appear to be needed to make the Project financially feasible. The Project's need for financial assistance has been analyzed under two scenarios:

1. **Without County or City Assistance.** This scenario assumes the Developer purchases the Site from the County at the appraised value of \$8.9 million, and will not receive City TID assistance for the Project.
2. **With Requested County and City Assistance.** This scenario assumes the Developer's requested writedown of the land price to \$500,000 from the County and \$17.5 million in TID financing from the City are provided.

SB Friedman used a return on cost approach to evaluate the need for gap financing. For projects that do not yet have a more detailed financing plan in place, this approach is generally a more stable, reliable indicator of general gap financing need than projected returns on equity. Returns on cost are also less volatile in response to changes in the project's financing structure, cap rates, or other parameters.

For both scenarios, *SB Friedman* made the following four adjustments to the Developer's pro forma to analyze returns:

- The Developer's 8/29/14 pro forma appears to double count expenses attributed to parking operations in Years 3 through 6. *SB Friedman* adjusted the parking Net Operating Income (NOI) to properly reflect projected expenses as outlined in the pro forma assumptions.
- The Developer's pro forma includes approximately \$4.8 million in negative cash flow in Years 3 and 4, impacting the projected rates of return. This potential issue is addressed in the Developer's capital budget through the inclusion of a similarly-sized operating deficit reserve. Accordingly, *SB Friedman* believes it is a more appropriate approach to reflect the use of this

reserve as an offsetting revenue source that results in no negative NOI in these initial years, and adjusted the pro forma accordingly.

- The Developer’s pro forma assumes a reversion sale occurs at the end of Year 15 based on projected Year 15 NOI and using a 5.5% terminal cap rate. *SB Friedman* adjusted the pro forma to calculate a reversion sale based on projected Year 16 NOI, a more typical practice known as “forward capping,” but also added a deduction from the reversion sale price to reflect a 3% cost of sales, also a more typical practice.
- For calculations of Return on Cost, *SB Friedman* deducted the amount of TID assistance from the Developer’s cost, as is typical for analysis of returns on public/private gap-financed projects. Without this adjustment, TID assistance would have no impact on returns on cost, therefore defeating the utility of this particular return metric.

Using these parameters, *SB Friedman* estimates that the Developer’s preliminary pro forma generates a stabilized yield on cost (1st year stabilized Net Operating Income divided by total project cost, net of TID assistance) of 5.2% and an unleveraged Internal Rate of Return (IRR) of 5.5%, as summarized in **Table 6** below. To benchmark these returns, *SB Friedman* reviewed the Project’s unleveraged IRR against the PricewaterhouseCoopers (PwC) Real Estate Investor Survey, which provides a return metric most comparable to the unleveraged IRR.

Table 6: Projected Developer Returns without Assistance

Returns Metric	Industry Benchmark [1]	Without County or City Assistance	With Requested County and City Assistance
Stabilized Yield on Cost	n/a	5.2%	6.5%
Annualized Internal Rate of Return (IRR) on Total Investment	7.9%	5.5%	7.9%

Sources: *SB Friedman*, Barrett Visionary Development, PricewaterhouseCoopers

[1] PricewaterhouseCoopers (PwC) Real Estate Investor Survey, Quarter 3, 2014

As shown in the table, without a land writedown to \$500,000 and the \$17.5 million in TID assistance, the Project appears to fall significantly short of market return benchmarks, and therefore would be very unlikely to proceed. Further, the addition of land costs and the removal of TID assistance would likely place substantial pressure on the Project’s need for private equity. Since senior debt appears to be capped by debt coverage constraints, it is unlikely that any additional debt could be obtained by the Developer to offset an increase in project cost. Therefore, additional equity would likely need to be raised dollar-for-dollar to address these costs and lost funding sources, exacerbating the impacts on project feasibility.

As shown in **Table 6**, *SB Friedman’s* preliminary analysis suggests the Developer is able to achieve market levels of return on cost with the requested County and City assistance. A writedown to \$500,000 in land price by the County appears necessary to give the Project an opportunity to attain market-level returns. In addition, the requested \$17.5 million in TID assistance from the City of Milwaukee appears to be needed to fund the components of the Project that represent substantial public amenities or infrastructure that would not generate material revenues for the Project.

Table 10, attached to this memo in the Appendix, shows the cash flow projections for the two scenarios (i.e. without assistance and with assistance) discussed above.

Conclusions

Based on *SB Friedman's* review of the Developer's August 29, 2014 pro forma for The Couture Project, it appears that a writedown to \$500,000 in land price by the County and \$17.5 million in TID financial assistance from the City would be required to make the Project financially feasible and have a reasonable opportunity to attract the necessary level of private financing. This conclusion is based on the somewhat preliminary information available on the Project at this time. However, absent a material change in project scope or material divergence in construction hard costs from the estimates provided by the Developer, we do not believe it is likely that the fundamental need for gap financing assistance will be eliminated as the Project moves closer to fruition.

Table 7: Sources & Uses

USES		
LINE-ITEM	TOTAL COST	% OF TOTAL
Acquisition		
Land Acquisition	\$500,000	0.41%
Hard Costs		
Construction Hard Costs	\$92,597,000	75.90%
LED Message Board	\$1,500,000	1.23%
Retail/Restaurant Tenant Improvement	\$3,737,625	3.06%
Furniture Fixtures & Equipment	\$256,700	0.21%
Soft Costs		
Survey	\$20,000	0.02%
Architect & Engineer Design	\$1,500,000	1.23%
Architect & Engineer Supervision	\$500,000	0.41%
Geotechnical Engineer	\$50,000	0.04%
Environmental & Soils	\$35,000	0.03%
Developer Legal	\$450,000	0.37%
Accounting	\$140,000	0.11%
Misc. 3rd Party Reports	\$25,000	0.02%
Site Supervision & Construction Management	\$925,970	0.76%
Communications & PR	\$200,000	0.16%
Leasing Marketing & Advertising	\$800,000	0.66%
Leasing Overhead	\$150,000	0.12%
Apartment Staging & Models	\$100,000	0.08%
Real Estate Taxes During Construction	\$3,000,000	2.46%
Insurance	\$200,000	0.16%
Operating Deficit	\$4,700,000	3.85%
General Contingency	\$1,624,821	1.33%
Financing Costs		
Interest During Construction	\$2,645,225	2.17%
Application Fee	\$25,000	0.02%
Lender Loan Fee	\$396,784	0.33%
Loan Brokerage Fee	\$793,568	0.65%
Title & Recording	\$50,000	0.04%
Lender Legal	\$50,000	0.04%
Inspection Fee	\$75,000	0.06%
City TIF Costs		
City Legal Costs	\$50,000	0.04%
Annual Audit Requirement	\$75,000	0.06%
3rd Party Feasibility	\$60,000	0.05%
Compliance	\$75,000	0.06%
SUBTOTAL:	\$117,307,692	96.15%
<i>Developer Fee</i>	<i>\$4,692,308</i>	<i>3.85%</i>
TOTAL USES:	\$122,000,000	100.00%
SOURCES		
LINE-ITEM	TOTAL COST	% OF TOTAL
Construction Loan	\$79,356,758	65.05%
City Public Infrastructure TIF	\$17,500,000	14.34%
Developer Cash	\$25,143,242	20.61%
TOTAL SOURCES:	\$122,000,000	100.00%

Table 8: Absorption

Lease-up Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Month from Closing	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52
Development Year	3	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	5	5	5	5

Apartments:

Avg Absorption	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Units Leased	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	
Total Units	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302
Occupancy	3.97%	7.95%	11.92%	15.89%	19.87%	23.84%	27.81%	31.79%	35.76%	39.74%	43.71%	47.68%	51.66%	55.63%	59.60%	63.58%	67.55%	71.52%	75.50%	79.47%	

Retail/Restaurant:

SF Leased	6,578	6,578	6,578	6,578	10,964	10,964	10,964	10,964	10,964	10,964	10,964	10,964	10,964	10,964	10,964	10,964	32,891	32,891	32,891	32,891	
Total SF	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835
Occupancy	13.20%	13.20%	13.20%	13.20%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	66.00%	66.00%	66.00%	66.00%	

Public Parking:

Avg Spaces Occupied	50	50	50	50	100	100	100	100	100	100	100	100	100	100	100	100	140	140	140	140
Total Spaces	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147
Occupancy	33.97%	33.97%	33.97%	33.97%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	67.93%	95.11%	95.11%	95.11%	95.11%

Lease-up Period	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
Month from Closing	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72
Development Year	5	5	5	5	5	5	5	5	6	6	6	6	6	6	6	6	6	6	6	6

Apartments:

Avg Absorption	12	12	12	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Units Leased	252	264	276	283	283	283	283	283	283	283	283	283	283	283	283	283	283	283	283	283
Total Units	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302	302
Occupancy	83.44%	87.42%	91.39%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%

Retail/Restaurant:

SF Leased	32,891	32,891	32,891	32,891	32,891	32,891	32,891	32,891	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855
Total SF	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835
Occupancy	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%

Public Parking:

Avg Spaces Occupied	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140
Total Spaces	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147	147
Occupancy	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%	95.11%

Source: Barrett Visionary Development (8-29-14)

Table 9: Operating Pro Forma

YEAR	1-2	3	4	5	6	7	8	9	10	11	12	13	14	15
PROJECT PHASES	Construction	Construction, Occ. Month 8	Lease-Up	Lease-Up	Stabilization	Performing	Performing	Performing	Performing	Performing	Performing	Performing	Performing	Performing
RESIDENTIAL INCOME:														
Avg Unit PMI (Gross Rent)		\$2,639	\$2,639	\$2,639	\$2,639	\$2,639	\$2,711	\$2,784	\$2,859	\$2,936	\$3,016	\$3,097	\$3,181	\$3,266
Avg Unit Rent Increases		0.00%	0.00%	0.00%	0.00%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
Total Units		302	302	302	302	302	302	302	302	302	302	302	302	302
Units Rented		36	192	283	283	283	283	283	283	283	283	283	283	283
% Occupancy		11.92%	63.58%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%	93.71%
RESIDENTIAL EGI:		\$316,732	\$3,990,827	\$8,169,054	\$8,963,524	\$8,963,524	\$9,205,540	\$9,454,089	\$9,709,350	\$9,971,502	\$10,240,733	\$10,517,232	\$10,801,198	\$11,092,830
RETAIL INCOME:														
Avg Gross Rent/SF		\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.96	\$33.95	\$34.97	\$36.02	\$37.10	\$38.21	\$39.36	\$40.54
Avg Rent Increases		0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rentable SF Leased		6,578	10,964	32,891	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855	43,855
Rentable SF		49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835	49,835
Occupancy		13.20%	22.00%	66.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%	88.00%
RETAIL EGI:		\$70,168	\$350,838	\$1,052,515	\$1,403,354	\$1,403,354	\$1,445,454	\$1,488,818	\$1,533,482	\$1,579,487	\$1,626,871	\$1,675,678	\$1,725,948	\$1,777,726
PARKING INCOME:														
Avg Annual Rate Per Space		\$4,500	\$4,500	\$4,500	\$4,500	\$4,500	\$4,635	\$4,774	\$4,917	\$5,065	\$5,217	\$5,373	\$5,534	\$5,700
Avg Rent Increases		0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Avg Spaces Filled		50	100	140	140	140	140	140	140	140	140	140	140	140
PARKING EGI:		\$75,000	\$450,000	\$630,000	\$630,000	\$630,000	\$648,900	\$668,367	\$688,418	\$709,071	\$730,343	\$752,253	\$774,821	\$798,065
EXPENSES:														
Avg Project Expense Increases		0.00%	0.00%	0.00%	0.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Residential Expenses		\$1,021,838	\$3,065,515	\$3,606,488	\$3,606,488	\$3,606,488	\$3,696,650	\$3,789,067	\$3,883,793	\$3,980,888	\$4,080,410	\$4,182,421	\$4,286,981	\$4,394,156
Retail Expenses		\$82,228	\$336,386	\$448,515	\$448,515	\$448,515	\$459,728	\$471,221	\$483,002	\$495,077	\$507,454	\$520,140	\$533,143	\$546,472
Parking Expenses		\$28,704	\$86,112	\$86,112	\$86,112	\$97,638	\$100,079	\$102,581	\$105,145	\$107,774	\$110,468	\$113,230	\$116,061	\$118,962
EXPENSES:		\$1,133,927	\$3,497,110	\$4,154,712	\$4,154,712	\$4,152,641	\$4,256,457	\$4,362,868	\$4,471,940	\$4,583,739	\$4,698,332	\$4,815,790	\$4,936,185	\$5,059,590
NET OPERATING INCOME:	\$0	-\$672,027	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$8,609,032

Source: Barrett Visionary Development (8-29-14), SB Friedman

The Couture - Preliminary Review
 Table 10: Projected Developer Returns

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
TOTAL SOURCES OF CASH																
NOI	\$0	\$0	\$0	-\$672,027	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$8,609,032
Payout of Operating Shortfall Reserve				\$1,994,640	\$2,673,283											
Reversion Proceeds																\$156,246,815
TOTAL	\$0	\$0	\$0	\$1,322,613	\$3,967,838	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$164,855,847
TOTAL USES OF CASH																
Debt Service - 1st Mortgage	\$0	\$0	\$0	\$1,322,613	\$3,967,838	\$3,967,838	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173	\$5,460,173
Debt Repayment - 1st Mortgage																\$65,251,152
Equity Distributions					\$0	\$0	\$1,729,019	\$1,381,993	\$1,384,064	\$1,583,264	\$1,788,233	\$1,999,137	\$2,216,148	\$2,439,442	\$2,669,200	\$2,905,608
TOTAL		\$0	\$0	\$1,322,613	\$3,967,838	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$164,855,847
<i>Annual Debt Coverage</i>						0.33	1.44	1.25	1.25	1.29	1.33	1.37	1.41	1.45	1.49	1.53
Unleveraged Cash Flow without City & County Assistance																
NOI	\$0	\$0	\$0	-\$672,027	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$8,609,032
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$156,246,815
Total Project Costs (net TIF)	-\$11,765,000	-\$36,254,280	-\$37,498,855	-\$45,737,864	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	-\$11,765,000	-\$36,254,280	-\$37,498,855	-\$46,409,892	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$164,855,847
<i>Annual Yield on Cost</i>					1.0%	4.3%	5.2%	5.2%	5.3%	5.5%	5.7%	5.8%	6.0%	6.2%	6.3%	6.5%
Unleveraged IRR 5.5%																
Unleveraged Cash Flow with City & County Assistance, as Requested																
NOI	\$0	\$0	\$0	-\$672,027	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$8,609,032
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$156,246,815
Total Project Costs (net TIF)	-\$2,509,001	-\$22,634,241	-\$33,618,894	-\$45,737,864	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	-\$2,509,001	-\$22,634,241	-\$33,618,894	-\$46,409,892	\$1,294,555	\$5,696,857	\$6,842,166	\$6,844,237	\$7,043,437	\$7,248,406	\$7,459,310	\$7,676,321	\$7,899,615	\$8,129,373	\$8,365,781	\$164,855,847
<i>Annual Yield on Cost</i>					1.2%	5.4%	6.5%	6.5%	6.7%	6.9%	7.1%	7.3%	7.5%	7.7%	8.0%	8.2%
Unleveraged IRR 7.9%																

Reversion Calculations

16th Year NOI	\$ 8,859,355
Terminal Cap Rate	5.5%
Terminal Value	\$ 161,079,191
Cost of Sale	3% \$ (4,832,376)
Net Reversion Proceeds	\$ 156,246,815

Source: SB Friedman , Barrett Visionary Development (8-29-14)