**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**

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*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% |
| ***The Couture*** | ***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 form 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.

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**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%** |
| *Developer Fee* | *$4,692,308* | *3.85%* |
| **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%** |

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

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**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 |
| 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 |
| 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 |
| 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)

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**Table 9: Operating Pro Forma**

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| 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** |
| 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*

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**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 | $94,144,522 |
| **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** |
| | | | | | | | | | | | | | | | | |
| *Annual Debt Coverage* | | | | | *0.33* | *1.44* | *1.25* | *1.25* | *1.29* | *1.33* | *1.37* | *1.41* | *1.45* | *1.49* | *1.53* | *1.58* |
| **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** |
| *Annual Yield on Cost* | | | | | *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** |
| *Annual Yield on Cost* | | | | | *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)