Development Research Partners

Date: January 28, 2016

From: Jesse Silverstein, Senior Economist, Development Research Partners

To: Kevin Tilson, Kevin Tilson, Director, Castle Rock Downtown Alliance

RE: Development Proforma Review for 221 Wilcox Redevelopment

Development Research Partners, Inc. (DRP) has been engaged by the Castle Rock Downtown Alliance to review the development budgets and forecast operating proforma for the referenced project.

This memorandum summarizes DRP's review and findings.

PROJECT BASIS

- The proposed redevelopment will replace a multi-tenant, free-standing, former 5,000 +/- square foot former bank building located on a 16,248 square foot site.
- The former 1st bank building was subsequently divided into multi-tenant space and leased by the previous owner. Niebur Development (Niebur) purchased the occupied building in 2015 for redevelopment. Redevelopment also requires asbestos remediation and building demolition, estimated to cost $50,000.
- Because of the office design and occupancy, Niebur paid market price for the property as an operating investment property, and not as vacant land. DRP estimates Niebur paid approximately $767,000 more than if the site were vacant.

  It is reasonable to assume that Niebur did not pay more than market value for the land, buildings, and income stream; but Niebur does have a vision to replace the building with a higher and better use, a use that may better suit the Town's community vision. Waiting for the former bank building to become functionally and/or physically obsolete, and depreciate to only land value, could take decades with much inherent market risk and little benefit to the Town.
- The completed redevelopment project is proposed to include 12 residential rental units, 9,395 square feet of retail, and 28,128 square feet of office space.
- It is Niebur's stated intentions to seek national credit tenants and use high quality materials and designs, expected by today's quality tenants. Niebur intends to create a top of the market property for Castle Rock's market. This pioneering development activity will likely face pressure in the market, but DRP anticipates the property to do well in the long-run and, complimenting other new developments in downtown, will fill this office niche.

SCOPE OF REVIEW

To benchmark the proposed project to the market, DRP reviewed and provided independent research regarding the following assumptions:

- Land market values
- Market rental rates
- Construction costs
- Commercial mortgage loan rates and terms
- Commercial construction loan rates and terms
- Market survey investment criteria and yield indicators
- Feasibility gap estimates, if any

Methodology used by DRP entails evaluating construction costs, rental rates, and market performance based on the developer's proposed project specifications.

Review Goals

- To provide a third-party objective evaluation to identify potential feasibility gaps in the proposed 221 Wilcox redevelopment project.
- To evaluate the scenarios where up-front public investment of $450,000 is made, with the balance funded through lender financing.
- Describe the financial components of a debt financed gap described above and inform public investment decision-making.

PROJECT ASSUMPTIONS

The following chart compares the as-proposed development proforma assumptions with DRP's market-derived assumptions.

MODEL ASSUMPTIONS	Market-Derived*	As-Proposed	Comments
Rent			Offices leases are typically on gross basis. There is ample retail competition and new spaces under development to reign in retail rents.
Residential	$1,500/mo	$1,538/mo	
Office	$20/sf/yr/gross	$19/sf/yr/net	
Retail	$18.00/yr/net	$22.00/sf/yr/net	
Average Commercial Lease Term (yrs)	3	7	Generally leases are 3- to 5-years; longer leases often carry scheduled year 3 rent bumps
Expenses			
Residential	$5,000/unit	$5,500/unit	Market-derived expenses today are similar to developer's estimates in the first fully stabilized operating year 3.
Office	$8.50/sf	$9.00/sf	
Retail	$8.50/sf	$9.00/sf	
Vacancy	5.0% + 1% economic loss	5.0% combined vacancy and economic loss	Stabilized vacancy anticipated by end of operating year 2. Year 3 is the first stabilized operating year, similar to Developer's projection
L:V Ratio	75.00%	75.00%	For construction and perm financing
Interest	5.5%	5.0%	For perm financing
Amortization	25 yrs	25 yrs	For perm financing
Construction Loan Rate	7.00%	4.00%	Interest only
Pre-Tax Yield	9.10%	Na	Investment goal
Overall Cap Rate	6.5%	8.5%	Applied to single year stabilized income
Terminal Cap Rate	7.5%	na	Applied to year 10 cash flow to determine liquidation value for the investment
Growth Rate			
Market Rent	3.00%	3.00%	DRP assume that in the long-run, both market rents and operating expenses are subject to overall rates of inflation estimated to be 3%
Operating Expenses	3.00%	2.00%	
Development Costs	$11.0 million	$13.2 million	DRP Market-derived cost source: RS Means Square Foot Costs.

** Based on DRP market research*

REVIEW SUMMARY

The primary variables of interest in this analysis are construction costs, rental rates, and rates of return.

- DRP has estimated development costs about 15% lower than the developer, which is outside of a simple rounding error. DRP estimates tenant finish costs to average about $27.60 per rentable square feet for the office and retail space combined, while the developer estimates $45. This $17.40 difference totals about $836,500 or about 6.3% of the developers total costs. The remaining $28.40 construction cost difference can likely be attributable to higher cost exteriors, higher-grade common area finish, and security system upgrades envisioned by the developer. Because the true level of future finishes is somewhat tenuous, DRP has utilized the market-derived rental rate assumption of $27.60 per square foot.
- DRP market rent assumptions for commercial space differs by notable amounts. The developer assumes a $19/sf net office lease, equating to a gross rent of $28.00 ($19.00 net + $9 expenses), which is well above what the current market for office space. Similarly, $22.00 is above current market rates for the Castle Rock retail market.
- Nationally and regionally, office and mixed-use investors are trading quality properties between about 6.0% and 7.0% on stabilized income. DRP's analysis indicates an imputed cap rate of 6.7% upon stabilization; the developer's proforma indicates a 6.6% imputed cap rate.

  The developer indicates that their target overall cap rate is 8.5%. Every developer has their preferred method for measuring investment goals and feasibility gaps. However, this analysis is intended to be a third-party arm's-length analysis of what the overall market would see as a feasibility gap. As such, DRP utilizes a comparison of internal rates of return and cash-on-cash returns, which are the most widely used market indicators.
- In using capitalization rates as a target, the developer's proforma potentially understates an important source of investment revenue, the sale of the asset at the end of an investment holding period. Typically in real estate investment analysis, the investment property is assumed to have a 10 year holding period, at which time the investor includes sales proceeds (less outstanding debt) as part of the returns. DRP's analysis assumes a 10-year hold period, typical to this investment type.

ANALYTICAL SUMMARY

To evaluate overall feasibility and potential feasibility gaps, DRP developed a cash flow analysis assuming a 10-year hold with sale of the asset at the end of the hold period.

Target Rates of Return

Based on investor surveys and market data researched by DRP, the following target rates are used to proxy investment hurdle rates of return. DRP utilizes a comparison of internal rates of return and cash-on-cash returns, which are the most widely used market indicators. In other words, it is assumed the cash flow projections must yield rates within the following ranges to be considered attractive to the market:

Leveraged Cash-on-Cash (return on equity after debt service)	**Internal Rate of Return (IRR)**
First stabilized operating year's Net Operating Income after debt service as % of equity.	The calculated Rate of Return that equates today's investment to future anticipated annual income over the investment holding period.
Market Target Rate: 10% to 20%	Market Target Rate: 8% to 12%

Feasibility Gap Estimate

The table below summarizes DRP' s market-derived analysis of potential feasibility gaps for this project and a sensitivity analysis of various levels of up-front gap funding. Market–derived proformas are attached as Exhibit 1.

Up-Front Public Investment	**Leveraged Cash-on-Cash**	**Internal Rate of Return**
Market Target Rate	*10% - 20%*	*8% - 12%*
$0	3.3%	5.3%
$450,000	3.9%	5.8%
$2.0mm	12.0%	8.0%
$2.1mm	13.9%	8.2%
$2.2mm	16.4%	8.3%
$2.3mm	20.0%	8.5%

- Without any public investment (waivers, TIF, other incentives), the project is infeasible from a market standpoint.
- Currently, the Town of Castle Rock has offered approximately $450,000 in public investment. However, this amount is insufficient to make the project feasible.
- A public investment of $2.0mm up-front is sufficient to just bring the rates of return indicators into a feasible range.
- A public investment of $2.3mm up-front brings the leveraged cash-on-cash rate of return indicators to the top of the market-derived indicator. At this rate the project should be able to attract any number of developers. Public investment above this level may create a windfall to the developer.

- A range of public investment between $2.0mm and $2.3mm is considered reasonable to make this project feasible.

A $2.2mm public investment should provide a reasonable rate of return to the developer as well as provide a cushion to this project, without providing undue windfall profits.

Bridging the Feasibility Gap

The overall feasibility gap is estimated at $2.2mm and the Town of Castle Rock has offered approximately $450,000 in public investment in fee waivers and outright cash for asbestos remediation and demolition. This leaves an unfilled gap of $1,750,000. This leaves three scenarios for the developer to bridge the gap.

Scenario 1: Developer Self-Funds Gap Up-Front

Requiring the developer to shoulder an additional $1,750,000 lump sum will most likely result in the project not being developed as planned, with limited economic and community benefit.

Scenario 2: Town Funds the Full Gap Up-Front

Budgetary restrictions and many demands on these limited funds may preclude the Town from having available resources to fund the additional lump sum $1,750,000 estimated gap. This then reverts to a situation in which the project does not get developed as planned.

Scenario 3: The Developer Finances the Gap through a Loan

This scenario is based on the assumption that the project can support a second loan to cover the remaining $1,750,000 gap. Further assuming that this is a junior loan, this scenario has been modeled using a slightly higher interest rate (5.75%) than the primary mortgage (5.5%). Additionally it is assumed the loan is amortized over a 20-year period.

The gap balance to be filled is $1,750,000 in present value. Amortizing this amount over 20 years provides the following indicators:

	GAP AMORTIZED (DEBT/LOAN)			ANNUALIZED GAP
Repayment Year:	**Annual loan payments principal + Interest**	**Annual Interest payments only**	**Annual Principal payments only**	**Annual amount equal to Present Value Gap** Discounted at 3%, the projected long-term economic growth rate
1	$147,438	$99,371	$48,066	$117,627
2	$147,438	$96,534	$50,904	$117,627
3	$147,438	$93,528	$53,909	$117,627
4	$147,438	$90,345	$57,092	$117,627
5	$147,438	$86,975	$60,463	$117,627
6	$147,438	$83,405	$64,033	$117,627
7	$147,438	$79,624	$67,813	$117,627
8	$147,438	$75,621	$71,817	$117,627
9	$147,438	$71,381	$76,057	$117,627
10	$147,438	$66,890	$80,547	$117,627
11	$147,438	$62,135	$85,303	$117,627
12	$147,438	$57,099	$90,339	$117,627
13	$147,438	$51,765	$95,672	$117,627
14	$147,438	$46,117	$101,321	$117,627
15	$147,438	$40,135	$107,303	$117,627
16	$147,438	$33,799	$113,638	$117,627
17	$147,438	$27,090	$120,347	$117,627
18	$147,438	$19,985	$127,453	$117,627
19	$147,438	$12,460	$134,977	$117,627
20	$147,438	$4,491	$142,946	$117,627
TOTAL (2016$)	**$2,948,751**	**$1,198,751**	**$1,750,000**	**$1,750,000**

As can be seen, the annualized amount that equals the present value of the gap is $117,627.

If the Developer amortizes the gap with a loan, total debt service would be $147,438 annually. This is constant over the 20 year term due to the mathematics of amortization. However, the proportion of the payment allocated between principal and interest changes over time. As principal is paid off over time, the amount of annual interest falls with the falling principal, and the amount of principal being paid off increases. This provides several ways that the gap can be bridged and/or shared.

For example, focusing on a scenario where public investment covers the developer’s cost of capital (interest) but the developer is still responsible for the project costs (principal):

- the amount of principal the developer pays is rather small in the early years, and grows over time as should the property income.
- This parallels market risk in the project, where the property economics stabilizes over time: the developer takes on more principal as cash flows increases; and the City's annual investment shrinks over time as the property stabilizes.
- The amount of interest the Town pays starts of big (but reasonable compared to the amount of TIF available) and shrinks over time just as more of the financial risk is shifted over to the developer.
- This scenario has the developer shouldering the entire $1,750,000 and public funds <u>only</u> going to offset his cost of capital, but not paying construction costs. The appearance is one of the RDA enabling the project to happen without actually investing in the project itself. You're merely "greasing the skids."

IN CONCLUSION

The developer has provided an estimate of development costs and anticipated operating cash flows for their opposed mixed-use development at 221 Wilcox. DRP has completed an objective review of current market conditions and evaluated market feasibility.

DRP estimates that there is a total $2,200,000 feasibility gap. The Town of Castle Rock has offered $450,000 in fee waivers and cash, which leaves a remaining balance of $1,750,000. Three scenarios were presented illustrating how that gap balance can be funded.

This information and analysis is provided to inform the Town's and developer's decision-making on ways to share the cost of financing the gap balance. It is DRP understanding that the Town is considering using Tax Increment Financing to help bridge this gap.

Please let me know if you have further questions or desire clarification. I look forward to discussing my review with you.

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Exhibit 1: DRP Market Derived Proformas

DRP NOI Projections

RETAIL SPACE		
Rentable Square Feet	9,395	
Current Market Rent	$18.00	
Operating/Mgmt/CAM Expenses	$8.50	
Growth Rate	3.00%	
Avg Lease Terms (yrs)	3	
Market Rent Escalations	each lease rollover	
Vacancy		5.00%
Economic Loss (vacancy, credit)		1.00%

RESIDENTIAL SPACE	
Units	12
Current Market Rent/mo	$1,500
Expenses/Unit	$5,000
Growth Rate	3.00%
Vacancy	5.00%
Economic Loss (vacancy, credit)	1.00%
Planned Replacements/Unit	$250

OFFICE SPACE		
Rentable Square Feet	28,128	
Current Market Rent	$20.00	
Operating/Mgmt/CAM Expense	$8.50	
Growth Rate	3.00%	
Avg Lease Terms (yrs)	3	
Market Rent Escalations	each lease rollover	
Stabilized Vacancy		5.00%
Economic Loss (vacancy, credit)		1.00%

YEAR		**Construction**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Commercial Space - Retail													
Op Expenses/CAM psf		($8.50)	($8.76)	($9.02)	($9.29)	($9.57)	($9.85)	($10.15)	($10.45)	($10.77)	($11.09)	($11.42)	($11.77)
Market Rent	*SF*	$18.00	$18.54	$19.10	$19.67	$20.26	$20.87	$21.49	$22.14	$22.80	$23.49	$24.19	$24.92
75%	*7,046*	*$0*	*$130,637*	*$130,637*	*$130,637*	*$142,751*	*$142,751*	*$142,751*	*$155,988*	*$155,988*	*$155,988*	*$170,452*	*$170,452*
25%	*2,349*	*$0*	*$43,546*	*$44,852*	*$44,852*	*$44,852*	*$49,011*	*$49,011*	*$49,011*	*$53,556*	*$53,556*	*$53,556*	*$58,522*
na		*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Potential Gross Rental Revenue		$0	$174,183	$175,490	$175,490	$187,603	$191,762	$191,762	$204,999	$209,544	$209,544	$224,008	$228,974
Occupancy			**75.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**
Effective Gross Revenue			**$130,637**	**$166,715**	**$166,715**	**$178,223**	**$182,174**	**$182,174**	**$194,749**	**$199,067**	**$199,067**	**$212,808**	**$217,526**
Less: Vacancy, credit Risk, leasing	1%	0%	($1,306)	($1,667)	($1,667)	($1,782)	($1,822)	($1,822)	($1,947)	($1,991)	($1,991)	($2,128)	($2,175)
Less: Operating Expenses		$0	($82,253)	($84,721)	($87,262)	($89,880)	($92,577)	($95,354)	($98,215)	($101,161)	($104,196)	($107,322)	($110,541)
Plus: Expense Reimbursements		$0	$61,690	$80,485	$82,899	$85,386	$87,948	$90,586	$93,304	$96,103	$98,986	$101,956	$105,014
NOI		**$0**	**$108,768**	**$160,812**	**$160,685**	**$171,947**	**$175,724**	**$175,585**	**$187,891**	**$192,018**	**$191,866**	**$205,314**	**$209,823**
Commercial Space - Office													
Op Expenses/SF		$8.50	$8.76	$9.02	$9.29	$9.57	$9.85	$10.15	$10.45	$10.77	$11.09	$11.42	$11.77
Market Rent	*SF*	$20.00	$20.60	$21.22	$21.85	$22.51	$23.19	$23.88	$24.60	$25.34	$26.10	$26.88	$27.68
75%	*21,096*	*$0*	*$434,578*	*$434,578*	*$434,578*	*$474,875*	*$474,875*	*$474,875*	*$518,908*	*$518,908*	*$518,908*	*$567,025*	*$567,025*
25%	*7,032*	*$0*	*$144,859*	*$149,205*	*$149,205*	*$149,205*	*$163,040*	*$163,040*	*$163,040*	*$178,159*	*$178,159*	*$178,159*	*$194,679*
na		*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Potential Gross Rental Revenue		$0	$579,437	$583,783	$583,783	$624,080	$637,915	$637,915	$681,949	$697,067	$697,067	$745,184	$761,704
Occupancy			**75.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**
Effective Gross Revenue			**$434,578**	**$554,593**	**$554,593**	**$592,876**	**$606,019**	**$606,019**	**$647,851**	**$662,214**	**$662,214**	**$707,925**	**$723,619**
Less: Vacancy, credit Risk, leasing	1%	0%	($4,346)	($5,546)	($5,546)	($5,929)	($6,060)	($6,060)	($6,479)	($6,622)	($6,622)	($7,079)	($7,236)
Less: Operating Expenses		$0	($246,261)	($253,648)	($261,258)	($269,096)	($277,169)	($285,484)	($294,048)	($302,870)	($311,956)	($321,314)	($330,954)
NOI		**$0**	**$183,971**	**$295,399**	**$287,790**	**$317,851**	**$322,791**	**$314,475**	**$347,325**	**$352,722**	**$343,636**	**$379,531**	**$385,429**
Residential Units													
Expenses/Unit		$5,000	$5,150	$5,305	$5,464	$5,628	$5,796	$5,970	$6,149	$6,334	$6,524	$6,720	$6,921
Market Rent/mo		$1,500	$1,545	$1,591	$1,639	$1,688	$1,739	$1,791	$1,845	$1,900	$1,957	$2,016	$2,076
Replacement Reserves		$250	$258	$265	$273	$281	$290	$299	$307	$317	$326	$336	$346
Potential Gross Rental Revenue		0	$222,480	$229,154	$236,029	$243,110	$250,403	$257,915	$265,653	$273,622	$281,831	$290,286	$298,995
Occupancy		0	**75.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**	**95.0%**
Effective Gross Revenue		**0**	**$166,860**	**$217,697**	**$224,228**	**$230,954**	**$237,883**	**$245,020**	**$252,370**	**$259,941**	**$267,739**	**$275,772**	**$284,045**
Less: Vacancy, credit Risk, leasing	1%	0	($1,669)	($2,177)	($2,242)	($2,310)	($2,379)	($2,450)	($2,524)	($2,599)	($2,677)	($2,758)	($2,840)
Less: Operating Expenses		0	($61,800)	($63,654)	($65,564)	($67,531)	($69,556)	($71,643)	($73,792)	($76,006)	($78,286)	($80,635)	($83,054)
Less: Planned Replacements		0	($3,090)	($3,183)	($3,278)	($3,377)	($3,478)	($3,582)	($3,690)	($3,800)	($3,914)	($4,032)	($4,153)
NOI		0	$100,301	$148,683	$153,144	$157,738	$162,470	$167,344	$172,364	$177,535	$182,861	$188,347	$193,998
RESIDENTIAL + COMMERCIAL													
Commercial NOI - Office		0	$183,971	$295,399	$287,790	$317,851	$322,791	$314,475	$347,325	$352,722	$343,636	$379,531	$385,429
Commercial NOI - Retail		0	$108,768	$160,812	$160,685	$171,947	$175,724	$175,585	$187,891	$192,018	$191,866	$205,314	$209,823
Residential NOI		0	$100,301	$148,683	$153,144	$157,738	$162,470	$167,344	$172,364	$177,535	$182,861	$188,347	$193,998
TOTAL NOI		**0**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
Imputed CAP Rate/Annualized Values		**6.50%**	**$6,046,775**	**$9,306,063**	**$9,255,662**	**$9,962,092**	**$10,168,986**	**$10,113,912**	**$10,885,846**	**$11,111,925**	**$11,051,744**	**$11,895,258**	**$12,142,301**

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $0 in up-front public investment

PROJECT SUMMARY

Property Summary		**Construction Loan Summary**		
No. Units	Various	Loan : Cost Ratio	75%	
Rentable SF	48,073	Contruction Loan Term (mos)	12	
Total Construction Cost	$11,000,000	Construction Interest Rate	7.00%	interest only
Construction per Square Foot	$229	Construction Loan Amount	$8,250,000	
Construction Equity	$2,750,000	Construct Loan Per RSF	$171.61	
ConstructionDebt	$8,250,000			
		Perm Loan Summary		
		Perm Loan : Value Ratio	75%	
Proforma		Perm Loan Amount	$6,941,746	
Year Stabilized	3	Perm Loan Ammortization (yrs)	25	
Stabilized NOI	$601,618	Perm Interest Rate	5.50%	
Stabilized Cap Rate	6.50%	Perm Loan Yearly Payment	$511,541	
Stabilized Proforma Value	$9,255,662	Perm Term	10	
Stabilized Value Per RSF	$193	Perm Loan Balance	$5,217,141	
Value upon Completion	$6,046,775	Loan Fees/Closing Costs	2.0%	
Reversion Cap Rate	7.50%			
Growth Rate	3.00%			
GAP FUNDING - applied to contruction equity	$0	**Feasibility Indicators (10 yr hold)**		Market Target Rate
		Cost/Value*	118.8%	
		Return on Equity (leveraged cash-on-cash)*	3.3%	10% to 20%
		IRR on Project (unleveraged)	5.3%	8% to 12%
		*Stabilized Year		

OPERATING PROFORMA

Proforma Year		**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$0**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$0**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($11,000,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($2,750,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-6.71%	-17.61%	3.28%	4.95%	5.43%	5.30%	7.13%	7.66%	7.52%	194.81%	10.10%
IRR on Project (unleveraged)		5.29%											
IRR on Equity (leveraged)		7.41%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $450,000 in up-front public investment

PROJECT SUMMARY

Property Summary	
No. Units	Various
Rentable SF	48,073
Total Construction Cost	$11,000,000
Construction per Square Foot	$229
Construction Equity	$2,750,000
ConstructionDebt	$8,250,000

Construction Loan Summary		
Loan : Cost Ratio	75%	
Contruction Loan Term (mos)	12	
Construction Interest Rate	7.00%	interest only
Construction Loan Amount	$8,250,000	
Construct Loan Per RSF	$171.61	

Perm Loan Summary	
Perm Loan : Value Ratio	75%
Perm Loan Amount	$6,941,746
Perm Loan Ammortization (yrs)	25
Perm Interest Rate	5.50%
Perm Loan Yearly Payment	$511,541
Perm Term	10
Perm Loan Balance	$5,217,141
Loan Fees/Closing Costs	2.0%

Proforma	
Year Stabilized	3
Stabilized NOI	$601,618
Stabilized Cap Rate	6.50%
Stabilized Proforma Value	$9,255,662
Stabilized Value Per RSF	$193
Value upon Completion	$6,046,775
Reversion Cap Rate	7.50%
Growth Rate	3.00%

GAP FUNDING - applied to contruction equity	$450,000

Feasibility Indicators (10 yr hold)		Market Target Rate
Cost/Value*	118.8%	
Return on Equity (leveraged cash-on-cash)*	3.9%	10% to 20%
IRR on Project (unleveraged)	5.8%	8% to 12%

*Stabilized Year

OPERATING PROFORMA

Proforma Year		**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$450,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$450,000**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$450,000**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($10,550,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($2,300,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-8.02%	-21.05%	3.92%	5.91%	6.50%	6.34%	8.52%	9.16%	8.99%	232.93%	12.07%
IRR on Project (unleveraged)		5.84%											
IRR on Equity (leveraged)		9.19%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			3.73%	5.73%	5.70%	6.14%	6.27%	6.23%	6.71%	6.85%	6.81%	7.33%	

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $2,000,000 in up-front public investment

PROJECT SUMMARY

Property Summary	
No. Units	Various
Rentable SF	48,073
Total Construction Cost	$11,000,000
Construction per Square Foot	$229
Construction Equity	$2,750,000
ConstructionDebt	$8,250,000

Proforma	
Year Stabilized	3
Stabilized NOI	$601,618
Stabilized Cap Rate	6.50%
Stabilized Proforma Value	$9,255,662
Stabilized Value Per RSF	$193
Value upon Completion	$6,046,775
Reversion Cap Rate	7.50%
Growth Rate	3.00%

GAP FUNDING - applied to contruction equity	$2,000,000

Construction Loan Summary		
Loan : Cost Ratio	75%	
Contruction Loan Term (mos)	12	
Construction Interest Rate	7.00%	interest only
Construction Loan Amount	$8,250,000	
Construct Loan Per RSF	$171.61	

Perm Loan Summary	
Perm Loan : Value Ratio	75%
Perm Loan Amount	$6,941,746
Perm Loan Ammortization (yrs)	25
Perm Interest Rate	5.50%
Perm Loan Yearly Payment	$511,541
Perm Term	10
Perm Loan Balance	$5,217,141
Loan Fees/Closing Costs	2.0%

Feasibility Indicators (10 yr hold)		Market Target Rate
Cost/Value*	118.8%	
Return on Equity (leveraged cash-on-cash)*	12.0%	10% to 20%
IRR on Project (unleveraged)	8.0%	8% to 12%

*Stabilized Year

OPERATING PROFORMA

Proforma Year		**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$2,000,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$2,000,000**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$2,000,000**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($9,000,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($750,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-24.59%	-64.55%	12.01%	18.13%	19.93%	19.45%	26.14%	28.10%	27.58%	714.32%	37.03%
IRR on Project (unleveraged)		8.00%											
IRR on Equity (leveraged)		19.95%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			4.37%	6.72%	6.68%	7.19%	7.34%	7.30%	7.86%	8.03%	7.98%	8.59%	

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $2,100,000 in up-front public investment

PROJECT SUMMARY

Property Summary		Construction Loan Summary		
No. Units	Various	Loan : Cost Ratio	75%	
Rentable SF	48,073	Contruction Loan Term (mos)	12	
Total Construction Cost	$11,000,000	Construction Interest Rate	7.00%	interest only
Construction per Square Foot	$229	Construction Loan Amount	$8,250,000	
Construction Equity	$2,750,000	Construct Loan Per RSF	$171.61	
ConstructionDebt	$8,250,000			
		Perm Loan Summary		
		Perm Loan : Value Ratio	75%	
Proforma		Perm Loan Amount	$6,941,746	
Year Stabilized	3	Perm Loan Ammortization (yrs)	25	
Stabilized NOI	$601,618	Perm Interest Rate	5.50%	
Stabilized Cap Rate	6.50%	Perm Loan Yearly Payment	$511,541	
Stabilized Proforma Value	$9,255,662	Perm Term	10	
Stabilized Value Per RSF	$193	Perm Loan Balance	$5,217,141	
Value upon Completion	$6,046,775	Loan Fees/Closing Costs	2.0%	
Reversion Cap Rate	7.50%			
Growth Rate	3.00%			
GAP FUNDING - applied to contruction equity	$2,100,000	**Feasibility Indicators (10 yr hold)**		Market Target Rate
		Cost/Value*	118.8%	
		Return on Equity (leveraged cash-on-cash)*	13.9%	10% to 20%
		IRR on Project (unleveraged)	8.2%	8% to 12%
		*Stabilized Year		

OPERATING PROFORMA

Proforma Year		CONSTRUCT	1	2	3	4	5	6	7	8	9	10	11
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$2,100,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$2,100,000**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$2,100,000**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($8,900,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($650,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-28.38%	-74.48%	13.86%	20.92%	22.99%	22.44%	30.16%	32.42%	31.82%	824.21%	42.72%
IRR on Project (unleveraged)		8.15%											
IRR on Equity (leveraged)		21.22%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			4.42%	6.80%	6.76%	7.28%	7.43%	7.39%	7.95%	8.12%	8.07%	8.69%	

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $2,200,000 in up-front public investment

PROJECT SUMMARY

Property Summary	
No. Units	Various
Rentable SF	48,073
Total Construction Cost	$11,000,000
Construction per Square Foot	$229
Construction Equity	$2,750,000
ConstructionDebt	$8,250,000
Proforma	
Year Stabilized	3
Stabilized NOI	$601,618
Stabilized Cap Rate	6.50%
Stabilized Proforma Value	$9,255,662
Stabilized Value Per RSF	$193
Value upon Completion	$6,046,775
Reversion Cap Rate	7.50%
Growth Rate	3.00%
GAP FUNDING - applied to contruction equity	$2,200,000

Construction Loan Summary		
Loan : Cost Ratio	75%	
Contruction Loan Term (mos)	12	
Construction Interest Rate	7.00%	interest only
Construction Loan Amount	$8,250,000	
Construct Loan Per RSF	$171.61	
Perm Loan Summary		
Perm Loan : Value Ratio	75%	
Perm Loan Amount	$6,941,746	
Perm Loan Ammortization (yrs)	25	
Perm Interest Rate	5.50%	
Perm Loan Yearly Payment	$511,541	
Perm Term	10	
Perm Loan Balance	$5,217,141	
Loan Fees/Closing Costs	2.0%	
Feasibility Indicators (10 yr hold)		Market Target Rate
Cost/Value*	118.8%	
Return on Equity (leveraged cash-on-cash)*	16.4%	10% to 20%
IRR on Project (unleveraged)	8.3%	8% to 12%

*Stabilized Year

OPERATING PROFORMA

Proforma Year		**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$2,200,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$2,200,000**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$2,200,000**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($8,800,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($550,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-33.54%	-88.03%	16.38%	24.73%	27.17%	26.52%	35.64%	38.32%	37.60%	974.07%	50.49%
IRR on Project (unleveraged)		8.31%											
IRR on Equity (leveraged)		22.65%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			4.47%	6.87%	6.84%	7.36%	7.51%	7.47%	8.04%	8.21%	8.16%	8.79%	

DRP Proforma Scenario:

221 Wilcox analyzed with market-derived assumptions and $2,300,000 in up-front public investment

PROJECT SUMMARY

Property Summary		**Construction Loan Summary**		
No. Units	Various	Loan : Cost Ratio	75%	
Rentable SF	48,073	Contruction Loan Term (mos)	12	
Total Construction Cost	$11,000,000	Construction Interest Rate	7.00%	interest only
Construction per Square Foot	$229	Construction Loan Amount	$8,250,000	
Construction Equity	$2,750,000	Construct Loan Per RSF	$171.61	
ConstructionDebt	$8,250,000			
		Perm Loan Summary		
		Perm Loan : Value Ratio	75%	
Proforma		Perm Loan Amount	$6,941,746	
Year Stabilized	3	Perm Loan Ammortization (yrs)	25	
Stabilized NOI	$601,618	Perm Interest Rate	5.50%	
Stabilized Cap Rate	6.50%	Perm Loan Yearly Payment	$511,541	
Stabilized Proforma Value	$9,255,662	Perm Term	10	
Stabilized Value Per RSF	$193	Perm Loan Balance	$5,217,141	
Value upon Completion	$6,046,775	Loan Fees/Closing Costs	2.0%	
Reversion Cap Rate	7.50%			
Growth Rate	3.00%			
GAP FUNDING - applied to contruction equity	$2,300,000	**Feasibility Indicators (10 yr hold)**		Market Target Rate
		Cost/Value*	118.8%	
		Return on Equity (leveraged cash-on-cash)*	20.0%	10% to 20%
		IRR on Project (unleveraged)	8.5%	8% to 12%
		*Stabilized Year		

OPERATING PROFORMA

Proforma Year		**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment													
Construction Equity		(2,750,000)											
Construction Debt		(8,250,000)											
Construction Cost		**(11,000,000)**											
Operating Income													
Net Income from Property Operations		$0	$393,040	$604,894	$601,618	$647,536	$660,984	$657,404	$707,580	$722,275	$718,363	$773,192	$789,250
GAP Funding		*$2,300,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI		**$2,300,000**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$773,192**	**$789,250**
(less) Construction Loan Interest Payment			($577,500)	($577,500)									
(less) Perm Loan Payments				($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)	($511,541)
Operating Cash Flow		**$2,300,000**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$261,651**	**$277,709**
Refinance/Gross Reversion Proceeds												$10,523,327	
(less) Closing Costs	2.00%											($210,467)	
(less) Loan Balance												($5,217,141)	
Net Refi/Reversion Proceeds												**$5,095,720**	
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)		**($8,700,000)**	**$393,040**	**$604,894**	**$601,618**	**$647,536**	**$660,984**	**$657,404**	**$707,580**	**$722,275**	**$718,363**	**$11,086,053**	**$789,250**
Leveraged Cash Flow (NET OF CONST GAP FUNDING)		**($450,000)**	**($184,460)**	**($484,147)**	**$90,077**	**$135,995**	**$149,443**	**$145,863**	**$196,039**	**$210,734**	**$206,823**	**$5,357,371**	**$277,709**
Rates of Return Analysis													
Return on Equity (cash-on-cash)			-40.99%	-107.59%	20.02%	30.22%	33.21%	32.41%	43.56%	46.83%	45.96%	1190.53%	61.71%
IRR on Project (unleveraged)		8.47%											
IRR on Equity (leveraged)		24.29%											
Return on Cost			3.57%	5.50%	5.47%	5.89%	6.01%	5.98%	6.43%	6.57%	6.53%	7.03%	7.17%
Imputed Cap Rate (cost less incentives)			4.52%	6.95%	6.92%	7.44%	7.60%	7.56%	8.13%	8.30%	8.26%	8.89%	