

Economic Feasibility Report

**PROPOSED PABST BREWERY
REDEVELOPMENT PROJECT
("THE BREWERY PROJECT")**

Prepared for:

City of Milwaukee

Originally Submitted: October 10, 2006

Revised and Resubmitted: November 13, 2006

DRAFT

November 13, 2006

James Scherer
Vice President
Milwaukee Economic Development Corp.
809 N. Broadway
Milwaukee, WI 53201

Dear Mr. Scherer,

Pursuant to our agreement, *S. B. Friedman & Company*, in conjunction with the Concord Group, has prepared this analysis of economic feasibility for the proposed Brewery Project, LLC redevelopment project.

The scope of our engagement included reviewing the proposed project pro forma and application for Tax Incremental Financing (TIF) assistance. We also studied the level of need for City assistance, the incremental property tax revenues likely to result from the project as proposed, the size of bond issue that TIF revenues from the project could support, and the projected timeframe to amortize the ultimate bond amount.

Our projections are based on estimates, assumptions and other information developed from our research, knowledge of the industry, and meetings with you and the developer during which certain information was obtained. Sources of information and bases of estimates and assumptions are cited in the report. We deem our sources of information to be reliable, but no guaranty can be offered as to the reliability of information obtained from others. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our report, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the report or associated financial analyses to reflect events or conditions which occur subsequent to the date of the report. These events or conditions include without limitation economic growth trends, governmental actions, acts of war or terrorism, additional competitive developments, construction delays, cost overruns, labor availability and costs, interest rates and other market factors. However, we will be available to discuss the necessity for revision in view of these changes or market factors.

Our study did not ascertain the legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits, and licenses. No effort was made to determine the possible effect on this project of present or future federal, state, or local legislation, including any environmental or ecological matters. Further, we have not evaluated management's effectiveness, nor are we responsible for future marketing efforts, programming, and other management actions upon which actual results will depend.

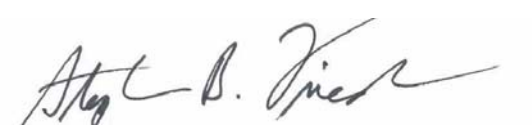
S. B. Friedman & Company is not an accounting firm and has not followed the procedures established by the American Institute of Certified Public Accountants in connection with prospective financial information.

Our report and prospective financial analysis are intended solely for your information, the Joint Review Board, and the Common Council, and should not be relied upon for any other purposes. Otherwise, neither the report nor its contents, nor any reference to our Firm may be included or quoted in any offering circular or registration statement, prospectus, loan, or other agreement or document.

We appreciate the opportunity to have been of service to the City of Milwaukee.

Sincerely,

S. B. Friedman & Company



Stephen B. Friedman, AICP, CRE
President



Tony Q. Smith
Senior Project Manager

City of Milwaukee
Proposed Pabst Brewery Redevelopment
by
The Brewery Project, LLC

Economic Feasibility Report

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1. Project Background and Study Approach

Based on information provided by Brewery Project, LLC (BPLLC or the master developer) and direction provided by the City of Milwaukee's Department of City Development (DCD), *S. B. Friedman & Company (SBFCo)* has produced an Economic Feasibility Report for the proposed Brewery Project.

Project Description

The Brewery Project is proposed on the site of the former Pabst Brewery complex at the southeast corner of the intersection of Interstate 43 and the Park East freeway in the northwest portion of Downtown Milwaukee. Brewery Project, LLC has developed a concept plan for the site and intends to act as the project's master developer. In this role, BPLLC will prepare the site for development by undertaking infrastructure improvements, environmental remediation, and strategic demolition activities prior to selling these "clean" sites (fully abated structures or vacant land) to individual real estate developers.

The conceptual plan for the Project consists of office, retail, residential, and hotel development housed in a mix of rehabilitated and newly constructed buildings located in a 6 ½ block area. While the ultimate development program for the Brewery Project will be driven by the purchasers of each site, the concept plan envisions a mixed-use neighborhood consisting of a combination of office, retail, residential, and hotel uses complemented with shared structured parking facilities. The proposed program includes approximately:

- 127,500 square feet of neighborhood and convenience retail
- 54,000-square-foot grocery store
- 573,000 square feet of office space
- 550,000 square feet (approximately 475 units) of residential space, including mixed-income apartments and for-sale (market-rate) condominiums
- 120 hotel rooms
- 3,600 stalls of parking provided in six structures
- 168,000 square feet of space, in four existing buildings, for which a development program has not yet been identified

Infrastructure, remediation, and demolition work to prepare sites for sale to individual developers will occur on a phased basis. Those blocks with the most modest need for infrastructure, demolition, and abatement investments will likely be sold more quickly, as will those blocks with advantageous visibility and access characteristics.

Proposed City Funding

Brewery Project, LLC and the City of Milwaukee have negotiated a proposed TIF assistance agreement. Under the proposed structure, the Brewery Project TID will fund approximately **\$29.0 million in total TID Project Costs**. BPLLC will receive direct TIF assistance to its project of up to approximately **\$28.1 million** to address a portion of the infrastructure,

demolition, abatement, and historic preservation costs associated with preparing the site for sale. The direct TIF assistance estimate of \$28.1 million is comprised of a City Infrastructure Component of about \$6.6 million; a Developer “At-Risk” Infrastructure Component of about \$5.1 million; Demolition/Abatement Contribution of about \$9.4 million; and about \$7.1 million for the purchase of historic preservation easements by the City. In addition to these amounts, the overall TID Project Costs will also include \$500,000 for job training assistance in association with employers who move to the site and \$360,000 for TID administration costs.

The project will receive a combination of up-front assistance and subsequent infusions of assistance as site preparation progresses and firm development commitments are received from purchasers of individual sites. Receipt of subsequent assistance is also dependent upon achievement of a series of threshold levels of incremental property value and provision of adequate structured parking for use by office and/or retail uses.

Additional detail regarding the preliminary redevelopment agreement provisions is provided in Chapters 3 and 5 (“Need for Financial Assistance” and “Projected Amortization of TID Debt,” respectively).

Study Approach

In addition to reviewing BPLLC’s overall concept plan for the Pabst Brewery site, *SBFCo*, in conjunction with the Concord Group, reviewed and considered the following key factors affecting the economic feasibility of the proposed project:

- Pro forma information provided by BPLLC, dated October 27, 2006
- Construction cost budget and supplemental information provided by KM Development Corporation on behalf of the developer
- Structure and assumptions of BPLLC’s pro formas
- Contextual market information for retail, residential (condominium and apartment), and office uses gathered and analyzed by *SBFCo*
- Available information on property sales contracts under negotiation to date
- Real property assessment data from the City Assessor’s Office for each key project component in order to validate the potential assessments for the Brewery Project within the context of the City as a whole
- Potential bonding assumptions as provided by DCD and the City of Milwaukee Office of the Comptroller to be used in evaluating financing capacity

2. Market Support for Development Program

Brewery Project, LLC will act as a master developer to implement the concept plan it has crafted for the redevelopment of the Pabst Brewery complex. In the concept plan, land uses have been laid out based on the physical condition and characteristics of the buildings on each parcel, site topography, and access and visibility considerations. As such, the conceptual development program outlined in the Brewery Project concept plan is primarily driven by the attributes of individual sites within the complex and preliminary discussions and negotiations between BPLLC and prospective purchasers.

As of the date of this report, BPLLC has identified several potential purchasers for various sites within the complex. The preliminary plans of these purchasers appear consistent with the mix and location of uses as outlined in the concept plan. However, firm/binding commitments for purchase and redevelopment have not yet been executed. As such, the proposed mix and location of uses within the overall project remains somewhat fluid and subject to market forces over time.

In light of the flexible scope, configuration, and timing of the potential buildout of the project, *SBFCo* analyzed underlying market parameters affecting the key uses included in the proposed development program. The primary purpose of this assessment is to add further grounding to the assumptions of absorption included in the projections of TID revenues included in this report, and the resulting amortization of the proposed City expenditures.

Methodology

To conduct the market feasibility assessment, *SBFCo* reviewed and considered the following:

- Projections of downtown-area residential demand developed for the Park East TID Economic Feasibility Report (February 4, 2005), as updated by newly available information on individual residential projects
- Recent analyses of regional and sub-regional office market trends performed by the firm for DCD
- Performance of analogous office projects, including The Tannery and Schlitz Park, based on interviews with key informants
- Interview-based input from prospective Brewery Project land purchasers regarding market dynamics affecting their proposed projects
- Analysis of supply and demand for the proposed grocery and neighborhood-level retail uses as shown in the BPLLC concept plan
- Analysis of absorption rates for various downtown multi-family for-sale projects from a 2005 market study performed by Tracy Cross & Associates and submitted to DCD as part of the PabstCity TIF application. Subsequent research conducted by DCD generally reinforces the findings of this study.

Our conclusions regarding the market feasibility of the proposed residential, office, grocery, and retail components of the development program are outlined in the respective sections of this chapter.

Residential Feasibility

The Park East TID Economic Feasibility Study of February 2005 was used as the foundation for assessing the market feasibility of residential development as part of the Brewery Project. This study was deemed relevant to the Brewery Project for several reasons. First, the study is grounded in historical and projected housing supply and demand trends for Milwaukee County, a geographic scale of analysis that is broad enough to be applicable to this project. Second, the Pabst Brewery site faces redevelopment challenges similar, though not identical, to the Park East TID, including the need for infrastructure and remediation and the additional layer of development complexity inherent in public/private partnerships. Finally, the Pabst Brewery complex is immediately west of the Park East TID, making it subject to similar neighborhood conditions and perception by potential residents.

SUMMARY OF PARK EAST FEASIBILITY STUDY FINDINGS

The objective of the 2005 residential market analysis was to project the pace at which potential new residential units in Downtown, and specifically the Park East TID, could be absorbed by the market. The analysis was rooted in two primary components:

- (1) Projections of downtown housing demand, based on projections of households by age cohort from the Wisconsin Department of Administration (DOA)
- (2) Historical capture of housing demand by downtown projects, specifically those located in the Beerline redevelopment area

The analysis indicates that growth trends among key household age cohorts will continue to be generally favorable for downtown housing demand. The two age cohorts most likely to demand this type of housing are households headed by 25- to 34-year-olds (first-time buyers) and households headed by those 55 years of age or older (empty nesters). In aggregate, this “target household” demographic is projected to experience a compound annual growth rate (CAGR) of 0.4% between 2005 and 2030. The majority of this growth is derived from the empty nester cohort, projected to grow at a CAGR of 1.0% annually during the same time period. Additionally, stability (CAGR of -0.1%) in the 35- to 54-year-old cohort (family-age households) appears sufficient to “backfill” the single-family units vacated by inner suburban empty nesters that choose to relocate to multi-family units in downtown Milwaukee.

Using the change in target households as an approximation for residential demand, analysis indicates that new residential construction in downtown Milwaukee captured approximately 22% of the demand for new housing in Milwaukee County between January 1998 and January 2004. Development in the Beerline and adjacent neighborhoods captured approximately 5% of the same estimate of demand. Given that development in the Beerline is essentially completed and other downtown neighborhoods were not anticipated to greatly increase residential production levels, the Park East TID Economic Feasibility Study estimated that the Park East TID could capture approximately 6% of the new residential demand among the target households on an annual basis. This equates to approximately 200 units per year through 2010 and 100 units per year thereafter (through 2030).

Absorption of units in the Park East TID has not yet matched the pace anticipated in the February 2005 Economic Feasibility Study. However, this appears primarily due to delays faced by individual projects affecting the available supply of units, as opposed to a significant drop-off in demand for housing in this area. At present, there are 123 rental and for-sale residential units approved/under construction in the Park East TID and an additional 1,118 units in the planning and proposal stages. This pipeline of residential development provides a further indication that developers believe that substantial residential market potential exists in the Park East (and presumably, Brewery Project) area.

RELEVANCE TO THE BREWERY PROJECT

SBFCo estimates that the absorption of residential units at the Brewery Project will occur at a slower pace than that estimated for the Park East TID. We believe that because of its proximity, the Park East TID will be a meaningful source of competition for residential households, and the Brewery Project may initially be at a competitive disadvantage for two key reasons:

- **Timing of Development.** The Brewery Project is more than a year away from being development-ready, at which point upcoming residential projects in the Park East TID will be posing direct competition.
- **Pedestrian Access/Amenities.** Although it is located close to the core of Downtown, the Brewery Project is separated from concentrations of shopping, restaurants, and other amenities. Undeveloped County-owned parcels to the east within the former Park East Freeway right-of-way and the Courthouse complex to the south create somewhat uninviting surroundings for pedestrians. While commercial amenities are likely to develop over time within the Project and to the east, initial absorption may be compromised relative to the Park East TID, which should be able to capitalize in part on its river frontage to compete for residential development. While the historic feel of the Brewery site will likely be a significant amenity at full buildout, the current structures, even in a remediated condition, may create temporary marketing challenges for residential projects initially developed within the complex.

Combined, the Park East TID and the Brewery Project may create a complementary agglomeration of development, enabling the larger area to capture more than the 100 to 200 units per year projected for the Park East in the Park East TID Economic Feasibility Study. The historic character of the Brewery Project site may differentiate it sufficiently in the eyes of homebuyers from the primarily new construction character of the Park East that the two districts can effectively attract different buyer profiles. However, the competitive disadvantages cited above and the smaller overall size of the Brewery Project site suggest that the overall Brewery Project residential absorption rate will be modest as compared to the Park East.

ABSORPTION DATA

- **For-Sale Residential.** The market study submitted in March 2005 by Tracy Cross & Associates as part of the PabstCity TIF application analyzed absorption rates for condominiums in the greater Downtown area. The study found average monthly

condominium absorption rates ranging from 1.2 units in mid-rise buildings to 3.0 units in new construction loft buildings. Moderately priced high-rise buildings and loft conversions fell between these two values.

- **Rental Residential.** Of the 477 total residential units depicted in the Brewery Project concept plan, the 90 located in Building 9 are anticipated to be developed as mixed-income rental apartments supported with Section 42 Tax Credit financing. The prospective purchaser for Building 9, the Gorman Company, has extensive experience with this product type, including the recently completed Park East Enterprise Lofts, located on King Drive close to the Brewery Project site. This 85-unit building was fully leased when it opened. This performance fits into a broader trend of faster lease-up for mixed-income projects because of the affordable rents mandated by the Section 42 program.

RESIDENTIAL ABSORPTION CONCLUSIONS

For the purposes of projecting incremental property taxes from residential development in the Brewery Project, *SBFCo* assumed an absorption rate of 3.0 units per month for for-sale condominium units, or 36 units per year. Based on the absorption data cited above for other condominium projects in the market, this estimate equates to the sales of one to two projects selling at any given time at the typical pace observed for projects within the Downtown area. It also represents 18-36% of the rate of absorption projected for the Park East in the Park East TID Economic Feasibility Study. As discussed above, the Brewery Project may compete for a somewhat different buyer niche than the Park East, and therefore its market capture may be wholly or partially additive to the 100-200 units per year projected for the Park East.

SBFCo assumed that mixed-income rental units would absorb within one year after construction completion, a rate that appears relatively conservative as compared to the recent performance of the Park East Enterprise Lofts project.

It should be noted that if the earliest market-rate condominium developments at the Brewery Project absorb more slowly than expected, future residential development at the site can be refocused on an alternative product type. Based on key informant interviews, it appears that several existing buildings in the complex show promise for conversion to use as mixed-income rental properties. While mixed-income residential products generally carry a lower assessed valuation on a per-square-foot basis, conversion of these properties into fast-absorbing mixed-income apartments could be a viable option for increasing the value of the TID if incremental property taxes lag expectations at some point during the life of the district.

Office Feasibility

Brewery Project, LLC's concept plan for the Pabst Brewery site contains approximately 573,000 square feet of office uses. For the purposes of this analysis, *SBFCo* treated this space as follows:

- **Block 5.** Block 5 is located at the northwest corner of the Brewery Project site, with excellent visibility from I-43. Based on the visibility level and layout envisioned in the

concept plan, this site may be an advantageous location for a corporate headquarters. Because this type of transaction is typically driven by deal-specific and tenant-specific conditions, it is difficult to use standard market analysis methodologies to predict whether and when a specific site may be developed with this use. *SBFCo* therefore excluded Block 5 from this market analysis and its projections of future incremental property tax revenues.

- **Building 29.** Building 29, a large existing building formerly used for Pabst bottling operations, is shown in the concept plan as a three-level office development totaling approximately 250,000 square feet. *SBFCo* treated this proposed conversion as follows:
 - Based on a site tour and discussions with the Developer, it appears that the lowest level of this building may represent lower-quality office space than the upper floors, and could feasibly be converted instead to relatively low-cost indoor parking (estimated 258 spaces). To be conservative, *SBFCo* therefore assumed for the purposes of projecting incremental property taxes that this conversion to parking would occur, resulting in an adjusted assumption of about 160,000 square feet of office development in this building.
 - Johnson Controls, Inc. has been identified as a potential occupant of level two of Building 29 for a regional training center (approximately 90,000 total square feet). For the purposes of projecting incremental property taxes, *SBFCo* assumed that this development would occur. However, it was not factored into *SBFCo*'s supply and demand-based analyses of absorption potential because of its transaction-specific nature.
- **Remainder of Proposed Office Development.** Excluding Block 5 and Building 29 as described above, approximately 240,000 square feet of additional office space remain in the Brewery Project concept plan. This space is primarily proposed within existing structures available for adaptive re-use. In order to evaluate the potential absorption of this space for the purposes of projecting incremental property taxes, *SBFCo* reviewed relevant market trends and data as described below.

OFFICE SUPPLY AND ABSORPTION TRENDS

Based on a review of the competitive office clusters of Class A and Class B office space in the region and available office market data, the regional office market was determined to be the four-county Milwaukee Primary Metropolitan Statistical Area (PMSA) consisting of Milwaukee, Ozaukee, Washington, and Waukesha Counties.

Time series office market data for Class A and B office for the time period between 1996 and 2005 was obtained from RFP Commercial, Inc. (RFP). According to RFP, in 2005, Class A and B office space totaled about 16.3 million square feet, or approximately 22% of the total office market (all classes of space) in the four-county region, which was estimated to be 73 million square feet.

Historical Absorption and Vacancy

Since 1995, the regional Class A and B office markets have broadly reflected the nationwide economic cycle of growth in the 1990s and decline in the early 2000s. **Figure 1** shows an annual summary of the Class A and Class B regional office market between 1996 and 2005. For comparability over time, this summary excludes the approximately 2 million square-foot Northshore Class A and B sub-market (including Glendale, Mequon, and Brown Deer) because RFP Commercial did not track this submarket prior to year 2001.

As shown in **Figure 1**, strong national economic growth in the late 1990s was paralleled by strong net absorption and relatively low vacancies in the Milwaukee PMSA regional office market. Between 1996 and 2000, net regional absorption (newly occupied space less newly vacated space) averaged nearly 365,000 square feet of space per year, and the average vacancy rate was approximately 10.2%.

Figure 1: Annual Class A and Class B Office Market Summary [1]

Year	Total Space (Square Feet)	Vacancy Rate	Total Occupied Space (Square Feet)	Net Absorption (Square Feet)	Net New Space Added [2] (Square Feet)
1996	10,894,656	11.5%	9,642,684	172,395	n/a
1997	10,894,451	9.1%	9,898,980	256,296	-
1998	11,503,751	10.1%	10,342,167	443,187	609,000
1999	12,021,811	10.3%	10,780,925	438,758	518,000
2000	12,469,362	9.4%	11,294,368	513,443	448,000
2001	13,147,349	10.8%	11,729,638	435,270	678,000
2002	13,382,805	12.2%	11,751,442	21,804	235,000
2003	14,302,404	14.1%	12,282,844	531,402	920,000
2004	14,302,095	16.1%	12,001,804	(281,040)	-
2005 (2 nd Quarter)	14,301,941	15.6%	12,072,053	70,249	-
Average 1996- 2000 [3]		10.1%		364,816	393,750
Average 2001-2005		13.8%		155,537	366,600
Average 1996-2005 [3]		11.9%		260,176	378,667

[1] Excludes Northshore office submarket because this data was not tracked by RFP prior to 2001

[2] Rounded to nearest thousand

[3] Average excludes 1996 data for "Net New Space Added"

Sources: RFP Commercial and *S. B. Friedman & Company*.

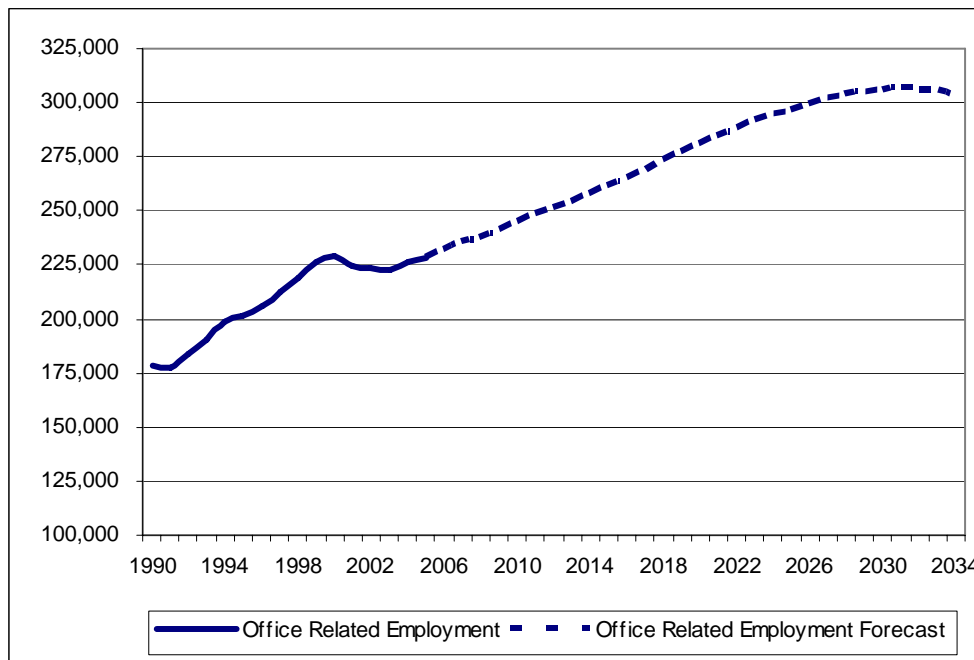
Following the start of the national economic downturn in 2001, net absorption in the regional office market lagged in 2002, and was negative in 2004. However, new construction activity still added over 1.8 million square feet of Class A and Class B office space to the existing stock between 2001 and 2003. These combined trends caused regional vacancies to increase to over 16% in 2004. By the second quarter of 2005 (the end of the RFP data series), the office market showed some recovery with a positive net absorption of over 70,000 square feet and a decline in vacancy to 15.6%.

EMPLOYMENT TRENDS

In order to develop projections of future regional office absorption, *SBFCo* reviewed historical and projected employment trends in key sectors relevant to the development of office space. Growth in regional office-related employment is generally considered the primary driver of office space development and absorption. This group includes firms in the professional services, information (media and information technology), F.I.R.E. (finance, insurance, and real estate), medical services (doctors and clinical services not located in hospitals), management of companies, and administrative service sectors.

Employment data in these office-related industry sectors for the Milwaukee PMSA was obtained from Moody’s Economy.com (Moody’s) – an internationally recognized economic data provider. Moody’s historical employment data is based on data collected by the Covered Employment program and the Quarterly Census of Employment and Wages program of the U.S. Bureau of Labor Statistics. Future employment data by office-related industry sectors for the region is based on forecasts prepared by Moody’s. **Figure 2** shows historical trends in total regional employment in these sectors, as well as future projections.

Figure 2: Milwaukee PMSA Office-Related Employment Trends and Projections



Sources: Moody’s Economy.com and *S. B. Friedman & Company*.

As shown in **Figure 2**, the regional market experienced strong employment growth in office-related sectors in the 1990s. Employment in these sectors grew at a compound annual rate of 2.5% between 1990 and 2000, adding over 50,000 jobs during the 10-year period. From the peak of nearly 229,000 jobs in 2000, total office employment in the four-county region declined for three years in a row resulting in a total loss of over 5,700 jobs. Since 2003, office employment

has recovered, but has grown at a slower pace of 1.1% a year. This data generally correlates to the lag in office absorption that took place between 2002 and 2004.

Projections indicate that office employment will continue to grow and that the pace of growth will increase to an average compound annual growth rate of approximately 1.4% over the next 15 years. Moody's projects the rate of growth to decline between 2020 and 2030, until employment peaks at approximately 306,000 in 2031. After this point, another period of decline is projected.

PROJECTED FUTURE REGIONAL OFFICE MARKET ABSORPTION

SBFCo estimated future market absorption of Class A and B office space in the Milwaukee region by synthesizing projections of future employment in office-related sectors, as described in the prior section, with historical trend data on the square footage of occupied Class A and B space per employee in these sectors.

Figure 3 shows historical trends and future projections for the Milwaukee regional office market in terms of office employment, occupied Class A and B office space, square feet per worker, and absorption.

Over the past decade, the average annual growth in occupied Class A and B office space outpaced the annual growth in office employment. One possible explanation for the historical increase in occupied Class A and B space per worker is that the stock of Class A and B space is increasing over time relative to Class C space. New office construction in the market is almost always Class A or B. In addition, older, obsolete Class C office buildings tend to be converted to other uses through rehabilitation or demolition.

In projecting future regional office demand, *SBFCo* assumed that this relatively consistent historical trend of growth in Class A and B space per office worker would continue in the future. However, to be conservative, *SBFCo* assumed a 1% future annual growth rate in occupied Class A and B space per office worker—a reduction of 0.36 percentage points relative to the observed annual rate between 1996 and 2005.

Future projections for occupied office space have been calculated by multiplying Moody's projection of total office-sector employment in each year by the projected occupied Class A and B space per employee. These projections of total occupied space are in turn used to calculate annual absorption. Based on this methodology, the annual absorption of Class A and B space in the Milwaukee regional office market is projected to average about 348,000 square feet per year over the next 25 years – an increase of nearly 30% over the absorption trend in the past decade.

Figure 3: Historical and Projected Regional Office Market Absorption

	Year	Total Office Employment	Occupied Class A & B Office Space (square feet) [1]	Square Feet/Office Worker	Office Market Absorption (Square Feet) [2]
Historical Data	1996	205,620	9,642,684	46.9	
	1997	212,470	9,898,980	46.6	256,296
	1998	219,146	10,342,167	47.2	443,187
	1999	226,688	10,780,925	47.6	438,758
	2000	228,760	11,294,368	49.4	513,443
	2001	224,583	11,729,638	52.2	435,270
	2002	223,530	11,751,442	52.6	21,804
	2003	223,023	12,282,844	55.1	531,402
	2004	225,909	12,001,804	53.1	(281,040)
	2005	227,898	12,072,053	53.0	70,249
Forecast Data	2006	232,099	12,417,531	53.5	345,000
	2007	235,920	12,748,178	54.0	331,000
	2008	237,545	12,964,346	54.6	216,000
	2009	240,921	13,280,082	55.1	316,000
	2010	244,668	13,621,491	55.7	341,000
	2011	248,016	13,945,964	56.2	324,000
	2012	251,269	14,270,169	56.8	324,000
	2013	254,292	14,586,271	57.4	316,000
	2014	257,498	14,917,870	57.9	332,000
	2015	260,982	15,270,909	58.5	353,000
	2016	264,799	15,649,197	59.1	378,000
	2017	268,843	16,047,073	59.7	398,000
	2018	273,030	16,459,962	60.3	413,000
	2019	277,104	16,872,624	60.9	413,000
	2020	281,046	17,283,776	61.5	411,000
CAGR* 1996-2005/Average Absorption 1996-2005		1.15%	2.53%	1.36%	269,930
CAGR*/Average Absorption 2006-2020		1.38%	2.39%	1.00%	347,000

[1] Excludes Northshore submarket because of the lack of comparable time series data.

[2] Forecast rounded to the nearest thousand.

* CAGR = Compounded Annual Growth Rate

Sources: Moody's Economy.com, RFP Commercial, S. B. Friedman & Company

COMPETITIVE ENVIRONMENT

It is assumed that office development within the Brewery Project will capture a portion of regional demand for office space. Although office markets are generally regional in scope, the Brewery Project would be expected to compete more directly with office buildings and projects in the Downtown submarket.

The key advantage of this submarket is that it is the historic center for office space in the region. It is home to the major cultural, political, and governmental entities in Milwaukee County as well as major corporations. Its major challenges are a general lack of free parking for employees and employee preferences for “easy in-easy out” office park access. Key informant interviews

indicated that the tenants captured by office locations on the fringe of Downtown such as the Brewery Project are generally seeking the advantages of downtown proximity, but want improved access to parking at a lower cost to employees than is generally found in the core of Downtown.

Currently, two new buildings are reportedly in the planning stages in the Downtown area. However, because of its historic rehab-driven character and Downtown-fringe location, the office space in the Brewery Project (excluding the Block 5 and Building 29 spaces discussed earlier) appears less likely to compete directly with these contemplated projects and more likely to function as part of a niche market that includes the Third Ward, Walker's Point, and Schlitz Park.

HISTORICAL CAPTURE RATES OF ANALOGOUS PROJECTS

Of the major office developments in the Downtown submarket, *SBFCo* concluded that the Schlitz Park and Tannery projects were most analogous to the proposed office development within the Brewery Project. Because of data availability on historical absorption rates, *SBFCo* used the performance of The Tannery during its initial lease-up to estimate the potential capture that could be attainable by the office component of the Brewery Project.

The Tannery Business & Living Center (The Tannery) is located in the Walker's Point neighborhood and covers approximately 35 acres. The area is roughly bounded by Bruce Street to the south, Interstate 94/43 to the west, the Menomonee River to the north, and 6th Street to the east. There are a total of 14 buildings at the Tannery, of which eight are awaiting rehabilitation. According to Tannery representatives, the current most likely use for the eight remaining buildings is as residential condominiums. However, they are prepared to respond to market demand for either residential or office uses. The Tannery currently contains 325,000 square feet of office space.

Figure 4 shows the historical absorption trends for The Tannery as compared to estimates of regional office absorption. Comparison of these two absorption rates yields estimates of the Tannery's capture rate.

Figure 4: Capture Estimate for The Tannery

Tannery Capture of Regional Absorption 1997-1999

Total Absorption 1997-1999	1,138,241
Tannery Absorption 1997-1999	97,822
Tannery Average Capture Rate 1997-1999	9%

Average Tannery Absorption versus Regional Average

Average Tannery Absorption to Stabilization (sf/yr)	30,000
Average Regional Market Absorption, 1997-2005 (sf/yr)	270,000
Tannery Average as Percentage of Regional Average	11%

Source: The Tannery, RFP Commercial and S. B. Friedman & Company

The time period for which both Tannery and regional absorption data were available for direct comparison is from 1997 through 1999. Over this period, The Tannery captured about 100,000 square feet of development, while the region is estimated to have absorbed about 1.1 million square feet overall – a capture rate of about 9%. On average between 1992 and 1999 (the period for which data is available), The Tannery absorbed about 30,000 square feet per of space. Between 1997 and 2005, the regional market is estimated to have absorbed an average of 270,000 square feet per year. The Tannery’s average 1992-99 absorption rate is about 11% of the regional average absorption for 1997-2005. Although the years in each period do not fully overlap, both data series appear to include a full economic cycle of seven or more years incorporating boom and downturn periods.

Based on the above analysis, *SBFCo* applied a capture range of 9-11% for the Brewery Project office space, excluding the Block 5 and Building 29 spaces separately discussed at the outset of this section.

ESTIMATED BREWERY PROJECT ABSORPTION

Figure 5 on the following page shows *SBFCo*’s projection of the future absorption rate achievable by office development at the Brewery Project between 2007 and full buildout. The projected range of absorption rates of the site was calculated based on:

- *SBFCo*’s projections of total regional office market absorption; and
- Assumed upper and lower bounds of long-term capture rates developed based on the performance of analogous projects described above.

As shown in **Figure 5** on the following page, the average annual absorption of the site is projected to range from 27,000 to 34,000 square feet. Based on these absorption rates, the 240,000 square feet of space considered in this analysis would be absorbed in 7 to 9 years.

Figure 5: Projected Absorption of Brewery Project Office Space [1]

Year	Regional Office Market (Absorption) [2]	Assumed Brewery Capture Rate (Low)	Assumed Brewery Capture Rate (High)	Brewery Site Absorption (Low) [2]	Brewery Site Absorption (High) [2]
2006	345,000				
2007	331,000	9%	11%	28,000	36,000
2008	216,000	9%	11%	19,000	24,000
2009	316,000	9%	11%	27,000	35,000
2010	341,000	9%	11%	29,000	38,000
2011	324,000	9%	11%	28,000	36,000
2012	324,000	9%	11%	28,000	36,000
2013	316,000	9%	11%	27,000	35,000
2014	332,000	9%	11%	29,000	-
2015	353,000	9%	11%	25,000	-
Total				240,000	240,000
Average Capture/Absorption To Full Build Out/Lease Up		9%	11%	26,667	34,286

[1] Excludes Block 5 and floors 1 and 2 of Building 29

[2] Rounded to the nearest thousand. Shading indicates lease up period under each scenario.

Based on the above analysis, *SBFCo* assumed a general office absorption rate of about 30,000 square feet per year for the purposes of projecting incremental property taxes as described in Chapter 4 of this report.

Grocery Feasibility

Brewery Project, LLC's concept plan for the Pabst Brewery site depicts a 54,000-square-foot grocery store as a future use on W. Highland Avenue, between North 8th and North 9th Streets. A specific tenant has yet to be identified for the site. *SBFCo* performed a specific analysis of demand for grocery uses in the likely trade area of this proposed store. The Brewery Project concept plan contains other types of retail space as well, which are addressed in the final section of this chapter.

Grocery location decisions are primarily driven by the access that a site has to be within convenient distance of households possessing sufficient buying power to support a new store that conforms to the size and format parameters of a particular store brand (e.g., Jewel, Trader Joe's, Pick 'n Save, Whole Foods, etc.). Because the area surrounding the potential grocery store site identified by BPLLC is not heavily residential in nature but is under active development, a critical mass of households may need to develop over time to make a grocery store supportable. To evaluate this theory, *SBFCo* conducted a saturation and capture analysis to determine a realistic timeframe in which the Brewery Project and surrounding neighborhood could achieve the critical residential mass necessary to support a grocery store of the scale shown in the BPLLC concept plan (54,000 square feet).

MARKET AREA

SBFCo began by defining the approximate trade area from which a Brewery Project grocery store would be expected to primarily draw its customer base. The definition of this area took into account factors such as:

- Physical and psychological barriers likely to affect shopping patterns;
- The distance that consumers are generally willing to travel to purchase basic goods in an urban setting; and
- The geographic distribution of existing and developing grocery stores that would compete with the new store.

Based on analysis of these factors, *SBFCo* established the Brewery Project grocery store trade area as a 1.5-mile radius surrounding the site, as illustrated in **Appendix Exhibit 1**. This market area encompasses a population of approximately 57,000 (2005 estimate) and includes Downtown Milwaukee, Marquette University, the Park East and Beerline areas, Brewers Hill, and a portion of other established neighborhoods such as the Lower East Side.

ANALYSIS OF COMPETITIVE SUPPLY

With the market area, *SBFCo* identified a total of 14 existing grocery stores of varying sizes and types that are likely to compete with the Brewery Project store. These stores total approximately 322,000 square feet and include:

- Scattered small/convenience food stores to the north and southwest of the Brewery site;
- A ring of three large stores located to the south (Pick ‘n Save), northwest (Jewel), and northeast (Jewel) of the site; and
- A pair of smaller, more specialized grocers less than one mile east/northeast of the site (Metro Market and Pick ‘n Save).

In addition, *SBFCo* identified two grocery stores that are planned or proposed within the market area. A specialty market is proposed to locate at the corner of N. Commerce and E. Pleasant Streets (Schlitz Park) within the next few years, adding a new 12,000-square-foot store to the existing cluster of niche grocers east/northeast of the Brewery site. A 55,000-square-foot Whole Foods (the first in Milwaukee) is scheduled to open in September 2006 at E. North and N. Prospect Avenues.

Each existing and future store was assigned a “competitiveness factor” based on its location and estimated level of comparability to the proposed specialty grocer to be located at the Brewery Project. Stores located at a greater distance from the site were assumed to draw a lesser percentage of their customer base from within the trade area. A lower factor was also assigned to stores with product mixes less likely to align with the income levels and consumer preferences of purchasers of newly developed residential within and to the east of the Brewery Project (e.g., discount food stores).

The competitiveness factor of each store was multiplied by its square footage to yield a tally of “competitive square feet” of grocery uses, among which the grocery expenditures of the Trade Area would theoretically be allocated. **Figure 6** summarizes the basic characteristics of the known competitive supply of grocery stores over the next three years.

Figure 6: Profile of Competitive Grocery Supply

Year	No. of Competitive Stores	Total Square Feet	Competitive Square Feet
2006	14	321,991	270,774
2007 [1]	15	376,991	279,024
2008 [2]	16	388,991	291,024

[1] Includes Whole Foods (9/20/06-12/31/06 sales excluded from analysis to allow time for operational ramp-up).

[2] Includes Schlitz Park specialty grocer.

ANALYSIS OF DEMAND

SBFCo analyzed demand for a grocery store at the Brewery Project site by developing a model of household, income, and grocery store expenditure growth for the market area through the year 2015. The base data for this model was obtained from Claritas, a nationally recognized demographic and economic data provider. We obtained basic descriptive statistics as well as 2005 estimates and 2010 projections of consumer expenditures at grocery stores for households residing in the Park East TID and for those residing within the balance of the market area (a 1.5-mile radius around the site). Household and expenditure data from Claritas (see **Appendix Exhibit 2**) indicate that the Claritas projections are a continuation of the historical household trends observed in the market area and do not take into account the residential development that is now in progress in the Park East TID and may occur at the Brewery Project. To account for this anticipated growth, *SBFCo* supplemented Claritas’ data by developing projections of these new households’ expenditures at grocery stores. These projections included assumptions regarding the following characteristics of households that are expected to reside at the Brewery Project and in the Park East TID by 2015:

- (1) Number of new households;
- (2) Income level of households; and
- (3) Proportion of household income expended at grocery stores.

Future Market Area Grocery Store Expenditures

SBFCo developed an estimate of future market area grocery store expenditures using projected household growth for the Park East TID, Brewery Project, and surrounding neighborhoods; estimates of household income; and proportion of household income spent at grocery stores (see **Appendix Exhibit 3** for detailed methodology):

Figure 7: Projected Expenditures at Grocery Stores, 2008-2015 (\$ millions)

	2008	2009	2010	2011	2012	2013	2014	2015
Claritas Base Household Projections [1]	\$140.2	\$146.1	\$153.4	\$156.5	\$159.6	\$162.8	\$166.1	\$169.4
Park East TID/Brewery Project Household Projections	\$1.4	\$2.8	\$4.3	\$5.2	\$6.1	\$7.1	\$8.0	\$9.1
Total (Annual)	\$141.6	\$148.9	\$157.7	\$161.7	\$165.7	\$169.9	\$174.1	\$178.5

[1] 2010 projected expenditures are inflated by 2% annually to project 2011-2015.

SUPPORTABILITY OF BREWERY PROJECT GROCERY STORE

In the final stage of this analysis, *SBFCo* compared the projected household expenditures at grocery stores to projected sales captured by the known competitive supply of stores. Market area household expenditures in excess of market area sales are characterized as a “leakage” of grocery store spending to stores located outside of the market area. If a sufficient amount of leakage is occurring, a new grocery store may be feasible in the market area. Feasibility of a new store will be determined by the relationship of the leakage amount to the sales per square foot required to support the potential store. *SBFCo* assumed that a store located at the Brewery Project would be relatively high-end/specialized and require sales potential equivalent to the top 10% of local chain supermarkets (\$607 in 2006 dollars) in order to be attractive to a grocery retailer.

The leakage analysis indicates that a 54,000-square-foot specialty grocery store could be supportable at the Brewery Project as early as 2012, as illustrated in **Figure 8**. For the purpose of projecting incremental property tax revenues resulting from the Brewery Project, *SBFCo* assumed that the proposed grocery use in Block 2 would be introduced at this time.

Figure 8: Brewery Project Grocery Store Leakage Analysis (\$ millions, unless otherwise noted)

	2008	2009	2010	2011	2012	2013	2014	2015
Expenditures	\$141.6	\$148.9	\$157.7	\$161.7	\$165.7	\$169.9	\$174.1	\$178.5
- Sales	\$119.0	\$121.4	\$123.8	\$126.3	\$128.8	\$131.4	\$134.0	\$136.7
= Leakage	\$22.7	\$27.5	\$33.9	\$35.4	\$37.0	\$38.5	\$40.2	\$41.9
÷ Required Sales per SF	\$631	\$644	\$657	\$670	\$683	\$697	\$711	\$725
Supportable Grocery Store Size (SF)	35,900	42,782	51,625	52,853	54,080	55,308	56,535	57,763

Sources: Claritas, Urban Land Institute, and *S. B. Friedman & Company*

The above analysis is dependent on a number of assumptions regarding future residential growth in the Park East area and at the Brewery Project site. The development of an additional competing grocery store (beyond the two future competitors considered in this analysis) could also adversely impact the size potential and/or timing of grocery store development at the Brewery site.

Neighborhood-Level Retail Feasibility

Brewery Project, LLC's concept plan for the Pabst Brewery site depicts 127,575 square feet of neighborhood and convenience retail on Blocks 1, 2, 4, and 6. As is the case with the proposed grocery use, specific tenants have not been identified for these sites. To analyze the market supportability of this size retail program at the Brewery Project, *SBFCo* conducted a combination of quantitative and qualitative retail feasibility analyses.

It is reasonable to believe that some level of retail presence will be supportable by the office and residential development programs proposed in the concept plan, combined with the residential development anticipated in the nearby Park East TID. To assess the likely nature and amount of supportable retail, *SBFCo*'s research and analysis explored:

- What types of retail uses are likely to be attracted to the site
- What magnitude of retail space is market-supportable and when

APPROPRIATENESS OF NEIGHBORHOOD RETAIL

The type and size of retail tenants attracted to the Brewery Project site will be determined both by the types of consumers to which they will be catering and the size and layout of available store spaces. Retail expenditures at potential retailers will be generated by a combination of the households residing at the Brewery Project, households residing in nearby neighborhoods, and employees of the businesses that locate in the project's more than 500,000 square feet of office space.

Brewery Project, LLC has indicated that a neighborhood-level shopping district is the scale anticipated for the Brewery Project. The definition put forth by the Urban Land Institute (*Dollars and Cents of Shopping Centers*) describes neighborhood-level shopping districts as catering to consumers generally located within a one-half-mile to one-mile radius and providing goods and services for daily needs (e.g., food, drugs, hardware, and personal/household services). These districts average approximately 65,000 square feet in size and are generally anchored by a grocery store. Using this definition as a benchmark, attracting neighborhood-level tenant types appears to be a reasonable assumption for the Brewery Project, while the magnitude of retail space depicted in the concept plan (127,575) appears aggressive. Additionally, other projects containing large office park components, such as Schlitz Park and The Tannery, have generated little or no ancillary retail development. It is therefore likely that the Brewery Project will experience a similar pattern of development.

MIX OF RETAIL TENANTS

The mix of resident households and office employees can conceivably provide market support for eating and drinking establishments, day-to-day convenience goods, and personal and household services. At average store sizes of up to a few thousand square feet for most of these uses, it is unlikely that the Brewery Project will be able to attract a sufficient number to fill the entire program of proposed retail space. It is more likely that a small number of secondary anchor tenants (5,000 to 15,000 square feet each) will be identified to complement the major grocery anchor, while smaller tenants (generally less than 5,000 square feet each) will be attracted to the Brewery Project when a critical mass of anchors has been created. Large-format stores such as those selling electronics, furniture, or general merchandise are unlikely to find it feasible to locate at the site due to the relatively small retail spaces that can be accommodated within the complex (less than 16,000 square feet).

SBFCo explored two types of potential secondary anchor tenants to supplement the proposed grocery store and provide the foundation of larger commercial uses necessary to attract ancillary smaller uses.

Secondary Anchor – Drugstore/Pharmacy

Another common secondary anchor in grocery-anchored shopping districts is a drugstore/pharmacy. National chains generally occupy 10,000 to 15,000 square feet, with regional chains and independents occupying slightly smaller spaces. Based on an inventory of drugstores within a 1.5-mile radius of the Brewery Project (the same travel tolerance as assumed for daily necessities such as groceries), *SBFCo* hypothesized that a full-service drugstore/pharmacy (as compared to a pharmacy within a grocery store format) may be a supportable retail use at the site. See **Appendix Exhibit 4** for the drugstore locations identified in this analysis.

To validate this hypothesis, a leakage analysis was conducted, in which expenditures by consumers residing in a 1.5-mile market area were compared to sales generated by establishments in the same approximate market area. *SBFCo* identified more than 73,000 square feet of drugstores that would be anticipated to compete with a potential new drugstore located at the Brewery Project. Parallel to the methodology employed for the grocery feasibility analysis, *SBFCo* then assigned a competitiveness factor to each store, reflective of its individual location relative to the Brewery Project. The resulting 70,500 square feet of competitive drugstore establishments was then multiplied by the median sales per square foot attained by national drugstore chains (\$394.69 in 2006 dollars), to arrive at an estimate of the 2006 sales revenue captured by this competitive universe of drugstores.

Again using a similar methodology to that employed for the grocery feasibility analysis, *SBFCo* compared this sales figure to projections of consumer expenditures by market area residents at drugstores (see **Appendix Exhibit 5** for more detailed methodology). The results of the analysis are displayed in the following figure.

Figure 9: Brewery Project Drugstore Leakage Analysis, 2008-2015

	2008	2009	2010	2011	2012	2013	2014	2015
Expenditures	\$32.9	\$35.4	\$38.7	\$42.8	\$43.8	\$44.7	\$45.7	\$46.7
- Sales	\$29.5	\$30.1	\$30.7	\$31.4	\$32.0	\$32.6	\$33.3	\$33.9
= Leakage	\$3.4	\$5.3	\$8.0	\$11.4	\$11.8	\$12.1	\$12.4	\$12.8
÷ Required Sales per SF	\$410	\$418	\$427	\$435	\$444	\$452	\$461	\$470
Supportable Drugstore Size (SF)	8,115	12,593	18,753	26,359	26,546	26,734	26,921	27,109

Sources: Claritas, Urban Land Institute, and *S. B. Friedman & Company*

The analysis indicates that a 15,000-square-foot drugstore may be supportable at the Brewery Project as early as 2010. It should be noted that this analysis includes only those expenditures anticipated to be made by residents living within 1.5 miles of the potential drugstore. Additional expenditures made by employees of the projected 573,000 square feet of Brewery Project office space would be in addition to those used in the leakage analysis.

Secondary Anchors – Eating and Drinking Establishments

Eating and drinking establishments are common secondary anchors in all levels of shopping districts (neighborhood, community, regional, super-regional). An inventory of the nearby supply of restaurants (see **Appendix Exhibit 6**) indicates that dine-in (i.e., full-service or sit-down) restaurants are relatively lacking within a half-mile radius of the Brewery Project site, with existing establishments clustered primarily along the riverfront to the east. While a much larger supply of restaurants exists beyond this half-mile radius, workers are unlikely to travel this distance (or cross the psychological barrier of the river) to make lunchtime purchases. Likewise, new residents at the Brewery Project will generate a “captive audience” for new eating and drinking establishments, as easily accessible alternatives are not abundant.

Quantitatively determining the amount of supportable eating and drinking square feet at the Brewery Project is difficult given the nature of the market area surrounding the site. A traditional retail leakage analysis in which expenditures by consumers residing in a defined market area are compared to sales generated by establishments in the same market area is not applicable to an environment of the type in which the site is located. A large number of restaurants are located immediately outside the half-mile radius depicted in **Appendix Exhibit 6** but within 1.5 miles of the site, generating a significant sales volume. However, these sales are generated largely by consumers residing outside of the area: downtown office workers, tourists, and residents of other metropolitan area neighborhoods patronizing destination dining locations, making this type of analysis inapplicable.

A qualitative evaluation of the nearby competition, the size of the anticipated worker and resident populations, and *SBFCo* experience with similar urban, mixed-used districts suggests that approximately 20,000 square feet of eating and drinking establishments may be supportable at the Brewery Project. This would likely consist of two to three full-service restaurants (approximately 5,000 square feet each) plus smaller café, deli, and quick service establishments.

Ancillary Retail and Service Uses

As mentioned earlier, the Urban Land Institute's characterization of neighborhood-level retail districts indicates that the magnitude of the retail program depicted in the Brewery Project concept plan may be somewhat aggressive. *SBF Co* experience with neighborhood-level retail centers suggests that, excluding the primary anchor (grocery), the secondary anchor tenants in the district tend to account for approximately 50% of the square footage of the district. The balance of the district square footage (50% excluding the grocer) is populated with smaller retail and service uses (e.g., drycleaners, copying/printing, etc.) Based on the estimated sizes of the drugstore and eating and drinking establishment components outlined in this section, a somewhat conservative estimate of the retail program at the Brewery Project would total 124,000 square feet, comprised of:

- 54,000-square-foot grocery anchor
- 15,000-square-foot drugstore (secondary anchor)
- 20,000 square feet of eating and drinking establishments (including two to three dine-in restaurants as secondary anchors)
- 35,000 square feet of ancillary small retail and personal/household service uses

It should be noted, however, that several factors could facilitate a more robust retail program at the Brewery Project relative to this estimate:

- Higher-than-anticipated demand for eating and drinking establishments, particularly from employees at the site's office buildings (e.g., if on-site managed food service is not provided)
- Additional secondary anchor tenants, which may include a larger-format business services provider (e.g., FedEx/Kinko's, Office Max Express) or other uses
- Construction of buildings that are configured to provide larger contiguous retail spaces and attract more and larger anchor tenants
- Development of the Brewery Project in a manner that facilitates an agglomeration of specialized, destination retailing such as a restaurant cluster

3. Need for Financial Assistance

SBFCo reviewed the financial pro forma provided by BPLLC for the Brewery Project and its implications for TIF need. The following sections outline:

- The proposed deal structure, as negotiated by the City and the developer, and reflected in the City’s term sheet for the Brewery Project;
- SBFCo’s analysis of the developer’s pro forma level of return; and
- Deal terms that will have an impact on the level of return the developer will be able to achieve.

Proposed Deal Structure

In the proposed deal structure negotiated between the City and the master developer, the Brewery Project is bifurcated into public and private components for the purposes of calculating returns and balancing sources and uses of funds. The sources and uses associated with each component have been allocated as indicated in **Figure 10**.

Figure 10: Bifurcation of Public and Private Project Components

	Private	Public
Sources	<ul style="list-style-type: none"> • Net property sales revenue • Easement sales revenue 	<ul style="list-style-type: none"> • TIF assistance • Brownfield credits
Uses	<ul style="list-style-type: none"> • Acquisition and pre-acquisition costs • Architecture/engineering • Portion of demolition and abatement, including general conditions/contractor fees • Project payroll allocation • Holding costs • Marketing • General & administrative • Other soft costs 	<ul style="list-style-type: none"> • Infrastructure • Portion of demolition and abatement • General conditions/contractor fees related to above items • Direct TIF planning and related costs • Purchase of historic preservation easements

The contemplated City TIF contribution is intended to support the following public project components:

- **Infrastructure.** The publicly funded infrastructure component of the project, totaling \$11.7 million, is comprised of the construction of those elements that are located within the public right-of-way, plus associated design costs. The City Infrastructure Component, estimated at \$6.6 million, includes paving, sidewalks, landscaping, lighting, and public utilities (sewer and water). The Developer “At-Risk” Component, estimated at \$5.1 million, includes construction of private utilities and miscellaneous planning activities. Both the City and Developer infrastructure components include associated construction fees and general conditions costs.

- **Demolition and Abatement.** The Demolition and Abatement Component, totaling \$9.4 million, consists of selective demolition of structures with limited reuse potential, interior abatement and cleanup of structures appropriate for historic rehab, technical assistance, testing and monitoring, allowances for cost inflation, and related construction fees and general conditions.
- **City Purchase of Historic Easements.** The City may purchase historic preservation easements from BPLLC at an estimated cost of \$7.1 million. Easements will be purchased on key historic structures within the Project in conjunction with BPLLC's performance of interior demolition/abatement work that will facilitate the re-use of these structures.

In aggregate, the requested City TIF assistance to the Brewery Project is estimated to be approximately \$28.1 million.

The developer's pro forma indicates that sales of property within the Brewery Project are anticipated to provide an aggregate of \$28.7 million of net land sales and easement sales proceeds to fund approximately \$26.6 million in development costs classified as private in **Figure 10** above.

Profit/Returns Analysis

In order to estimate BPLLC's pro forma rate of return for the project, *SBFCo* analyzed the projected stream of land sales revenues against the projected private development costs. *SBFCo* analyzed these returns to Brewery Project, LLC via two methods:

1. Stabilized basis – assessment of the project's net profit as a percentage of gross land sales proceeds without considering the timing of costs and revenues
2. Cash flow basis – pro forma internal rate of return (IRR) from the time of project inception to project completion, reflecting projected timing of costs and revenues

STABILIZED PROFIT

BPLLC estimates that the project will produce about \$20.4 million in net sales revenue (gross sales revenue less commissions and closing costs). The projected privately funded development costs are approximately \$26.6 million. This yields an estimated net profit of about \$900,000, or about 4% of projected gross sales revenue. Although the project is fairly distinctive and therefore difficult to benchmark, this level appears significantly below typical market expectations. **Figure 11** on the following page shows this calculation.

Figure 11
City of Milwaukee- Brewery Project Economic Feasibility
Stabilized Developer Profit Analysis

	Total Project Sources and Uses	Portion Funded by TID	Net Project Budget Realized by Developer
SOURCES			\$ -
Property sales	\$ 21,662,774	\$ -	\$ 21,662,774
Less: Commissions (4%)	\$ (866,511)	\$ -	\$ (866,511)
Less: Closing costs (2%)	\$ (433,255)	\$ -	\$ (433,255)
Easement Purchase Income	\$ 7,061,535	\$ 7,061,535	\$ 7,061,535
TOTAL PROJECT SOURCES	\$ 27,424,543		\$ 27,424,543
USES			
Acquisition Costs			
Preacquisition costs	\$ 956,180	\$ -	\$ 956,180
Acquisition costs-brewery site	\$ 13,525,000	\$ -	\$ 13,525,000
Acquisition costs- remainder of site	\$ 400,000	\$ -	\$ 400,000
Subtotal Acquisition Costs	\$ 14,881,180	\$ -	\$ 14,881,180
Hard Costs			
Demolition and abatement costs [1]	\$ 16,454,740	\$ 9,393,205	\$ 7,061,535
Infrastructure costs [1], [2]	\$ 11,687,531	\$ 11,687,531	\$ -
Subtotal Hard Costs	\$ 28,142,271		\$ 7,061,535
Soft Costs			
Payroll allocation	\$ 1,596,631	\$ -	\$ 1,596,631
Direct TIF planning and related costs	\$ 616,000	\$ -	\$ 616,000
Holding, marketing, and G & A costs [3]	\$ 2,403,500	\$ -	\$ 2,403,500
Subtotal Soft Costs	\$ 4,616,131		\$ 4,616,131
Other			
Job training assistance	\$ 500,000	\$ 500,000	\$ -
Administration Costs	\$ 360,000	\$ 360,000	\$ -
Subtotal Other	\$ 860,000		\$ -
TOTAL USES	\$ 48,499,582	\$ 29,002,271	\$ 26,558,846
Developer Net Cash Flow			\$ 865,697
Developer Net Cash Flow as % of Gross Property Sales			4.0%

[1] Includes general conditions of 5% on demo/abatement & infrastructure costs; management fees of 1.5% on work performed by Milwaukee Dept. of Public Works and 3.5% on all others

[2] Includes TID and other planning costs

[3] Includes insurance, security, utilities, real estate taxes, building/landscape repairs and maintenance, legal expenses, marketing expenses, and other professional fees.

INTERNAL RATE OF RETURN

To date, BPLLC has used cash equity to fund all project-related expenditures, including acquisition of the site and pre-acquisition costs (e.g., payroll, professional services, etc.). The proposed terms of BPLLC's agreement with the City allow for the potential to take on debt secured by a mortgage on the site to cover some portion of the remaining costs, but it is not yet clear whether this will take place. Because the ultimate financing structure is not yet determined, *SBFCo* analyzed project cash flow on an unleveraged basis using internal rate of return (IRR) on total cost (as opposed to IRR on equity).

The cash flow analysis assumes a 60-month project (January 2006 to December 2010) and incorporates the revenue and expense scheduled projected in the developer's pro forma. The agreement between BPLLC and the City also incorporates a cap on internal expenses of 7.5% of gross sales revenue. As shown in **Figure 12** on the following page, *SBFCo* estimates the IRR on total costs to be about 3.4% over the projected sellout term.

The projected rate of return is below typical market expectations, as evidenced by the fact that it is lower than the typical current interest rates for real estate debt financing. This indicates that the likely return for an equity investor funding a portion of the project would be no higher than the projected 3.4% IRR on total cost based on the current construction, sales revenue, and timing assumptions.

Deal Terms Related to Developer Profit/Returns

In negotiating the proposed deal structure with BPLLC for the Brewery Project, the City has recognized that the current projected developer returns are below market by incorporating two provisions for sharing the project's net sales proceeds if the project outperforms current expectations by a substantial margin. The philosophy behind these provisions is to:

- (1) Limit the developer's return to a modest level that reflects the significance of the up-front investment made by the City; and
- (2) Enable the City to participate in the success of the Brewery Project if it exceeds current (pro forma) expectations, in acknowledgement of its key role in financially facilitating the project.

Under the proposed deal terms, BPLLC will retain 100% of its net sales proceeds until such time as one or both of the thresholds described below is attained. Payments made to the City under each provision are independent of whether payments are made to the City under the other provision.

- **Net Sales Proceeds Threshold.** The proposed deal structure establishes a threshold equal to approximately 107% of currently projected net sales proceeds (\$21.7 million), above which 50% of incremental net sales proceeds will be remitted to the City. This threshold would allow the developer to achieve a net profit margin of at least 10% (based on currently projected private development costs) before sharing of cash flow.

Figure 12

DRAFT

**City of Milwaukee- Brewery Project Economic Feasibility
Projected Cash Flows and Internal Rate of Return**

Period:	1	2	3	4	5	6	7	8	9	10	Project Total
	1/1/06 to 6/30/06	7/1/06 to 12/31/06	1/1/07 to 6/30/07	7/1/07 to 12/31/07	1/1/08 to 6/30/08	7/1/08 to 12/31/08	1/1/09 to 6/30/09	7/1/09 to 12/31/09	1/1/10 to 6/30/10	7/1/10 to 12/31/10	
Property Sales	\$ -	\$ -	\$ -	\$ 11,712,943	\$ 2,468,348	\$ 6,781,484	\$ -	\$ -	\$ 700,000	\$ -	\$ 21,662,774
Commissions	\$ -	\$ -	\$ -	\$ (468,518)	\$ (98,734)	\$ (271,259)	\$ -	\$ -	\$ (28,000)	\$ -	\$ (866,511)
Closing Costs	\$ -	\$ -	\$ -	\$ (234,259)	\$ (49,367)	\$ (135,630)	\$ -	\$ -	\$ (14,000)	\$ -	\$ (433,255)
Sources of Cash	\$ -	\$ -	\$ -	\$ 11,010,166	\$ 2,320,247	\$ 6,374,595	\$ -	\$ -	\$ 658,000	\$ -	\$ 20,363,008
Preacq. Costs	\$ 711,442	\$ 244,738	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 956,180
Acquisition Costs	\$ 1,100,000	\$ 12,825,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,925,000
Direct TIF Planning & Related Costs	\$ -	\$ 616,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 616,000
Payroll Allocation	\$ 120,000	\$ 320,268	\$ 367,902	\$ 367,902	\$ 187,902	\$ 137,902	\$ 37,902	\$ 37,902	\$ 18,951	\$ -	\$ 1,596,631
Holding Costs	\$ -	\$ 508,500	\$ 750,000	\$ 525,000	\$ 200,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 60,000	\$ -	\$ 2,403,500
Uses of Cash	\$ 1,931,442	\$ 14,514,506	\$ 1,117,902	\$ 892,902	\$ 387,902	\$ 257,902	\$ 157,902	\$ 157,902	\$ 78,951	\$ -	\$ 19,497,311
Net cash flow	\$ (1,931,442)	\$ (14,514,506)	\$ (1,117,902)	\$ 10,117,264	\$ 1,932,345	\$ 6,116,693	\$ (157,902)	\$ (157,902)	\$ 579,049	\$ -	\$ 865,697
IRR Through 12/31/10											
3.4%											

Source: Brewery Project, LLC and S. B. Friedman & Company

- **Internal Rate of Return (IRR) Threshold.** The IRR threshold calls for BPLLC to provide 50% of its net cash flow to the City beyond the point where BPLLC has achieved an 8% IRR.

Collectively, these provisions allow BPLLC to realize modest rates of return if the Brewery Project exceeds current pro forma expectations, but give the City an opportunity to share in the benefits if out-performance of the pro forma is substantial.

4. Incremental Property Tax Revenues

In order to estimate the time frame of repayment for the proposed TIF assistance, *SBFCo* projected incremental property tax revenues likely to result from the Brewery Project. This chapter describes the results of these projections, as well as the key underlying assumptions and methodologies.

TIF Projection Assumptions and Methodology

Figure 14 shows *SBFCo*'s projections of incremental property taxes. These projections indicate total undiscounted tax collections of approximately \$88.4 million between 2007 and 2034, yielding a present value (discounted at 5%) in 2006 dollars of approximately \$36.2 million. Our methodology and key assumptions are described below:

- **Adjustments to Development Program.** The primary basis for *SBFCo*'s TIF projections is the program shown in the BPLLC concept plan. However, in order to be conservative, the adjusted development program used for TIF projection purposes excludes three components of the project that appear least certain in terms of ultimate development program and timing:
 - Block 5 – potential new construction headquarters office location
 - Block 7 – potential mixed-use building (residential and retail)
 - Building 29 – ground floor level (potential replacement of proposed office uses with interior parking)

The resulting development program assumed by *SBFCo* for the purpose of projecting incremental property tax revenue is as follows:

Figure 13: Development Program for Purposes of TIF Projections

	Office Sq. Feet	Retail Sq. Feet*	Residential Units	Hotel Rooms	Parking Spaces
Block 1		55,100	196		416
Block 2		77,200			1,766
Block 3	160,663				258
Block 4	48,000	18,900	248		346
Block 5	No development program assumed				
Block 6	121,500	30,375	33	120	291
Block 7	No development program assumed				
Total	330,163	181,575	477	120	3,077

* Includes 54,000-square-foot grocery store.

This program assumes the full retail development program proposed in the concept plan. To test the projections' sensitivity to development program assumptions, an alternative scenario was also analyzed. In this scenario, the non-grocery portion of the retail program is reduced by 50% and the parcel that is shown in the concept plan as a hotel on Block 6 is instead depicted as

developed into 57 condominium units. Projections of the incremental property tax revenue generated by this alternative scenario are included as **Appendix Exhibit 7A**.

Figure 14
City of Milwaukee- Brewery Project Economic Feasibility
Projected Incremental Property Tax Revenues

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Inputs and Assumptions	
2007 Est'd. Base Value	\$ 8,022,700
Tax Collection Rate	100%

Year of TID	Assessment Year (Jan. 1) [1], [2]	Inflated Base AV of All TID Parcels	Cumulative AV Deductions [3]	Cumulative AV Additions [4]					TOTAL AV [5]	Incremental AV Above Base AV [6]	Tax Rate [7]	Tax Revenues Collected (Jan. 31) @ 100% [8]
				Real Property								
				Office	Retail	Rental Residential	For-Sale Residential	Hotel				
0	2006	\$ 8,022,700	\$ -									
1	2007	\$ 8,022,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,022,700	\$ -	2.32%	\$ -
2	2008	\$ 8,183,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,183,154	\$ 160,454	2.26%	\$ -
3	2009	\$ 8,346,817	\$ (131,874)	\$ -	\$ -	\$ 3,846,761	\$ -	\$ -	\$ 12,061,704	\$ 4,039,004	2.20%	\$ 3,628
4	2010	\$ 8,513,753	\$ (1,641,250)	\$ 7,911,194	\$ -	\$ 3,942,930	\$ 9,834,973	\$ 3,896,756	\$ 32,458,355	\$ 24,435,655	2.14%	\$ 88,904
5	2011	\$ 8,684,028	\$ (2,567,209)	\$ 11,130,106	\$ 1,905,418	\$ 4,041,503	\$ 20,161,694	\$ 7,949,382	\$ 51,304,923	\$ 43,282,223	2.09%	\$ 523,652
6	2012	\$ 8,857,709	\$ (3,448,702)	\$ 14,474,611	\$ 3,887,053	\$ 4,142,541	\$ 30,998,605	\$ 8,108,369	\$ 67,020,186	\$ 58,997,486	2.03%	\$ 903,024
7	2013	\$ 9,034,863	\$ (4,827,981)	\$ 18,899,371	\$ 10,909,513	\$ 4,246,104	\$ 42,364,760	\$ 8,270,537	\$ 88,897,168	\$ 80,874,468	2.00%	\$ 1,198,378
8	2014	\$ 9,215,561	\$ (5,390,087)	\$ 22,857,950	\$ 13,149,748	\$ 4,352,257	\$ 54,279,849	\$ 8,435,948	\$ 106,901,226	\$ 98,878,526	2.00%	\$ 1,617,489
9	2015	\$ 9,399,872	\$ (6,075,183)	\$ 26,642,246	\$ 16,307,014	\$ 4,461,063	\$ 66,483,220	\$ 8,604,666	\$ 125,822,899	\$ 117,800,199	2.00%	\$ 1,977,571
10	2016	\$ 9,587,869	\$ (6,798,311)	\$ 29,515,561	\$ 19,190,737	\$ 4,572,590	\$ 79,032,420	\$ 8,776,760	\$ 143,877,626	\$ 135,854,926	2.00%	\$ 2,356,004
11	2017	\$ 9,779,627	\$ (7,502,929)	\$ 32,682,143	\$ 21,112,307	\$ 4,686,905	\$ 92,167,527	\$ 8,952,295	\$ 161,877,875	\$ 153,855,175	2.00%	\$ 2,717,099
12	2018	\$ 9,975,219	\$ (8,214,216)	\$ 34,715,633	\$ 23,175,353	\$ 4,804,077	\$ 105,909,995	\$ 9,131,341	\$ 179,497,402	\$ 171,474,702	2.00%	\$ 3,077,103
13	2019	\$ 10,174,723	\$ (8,891,567)	\$ 35,409,946	\$ 24,835,135	\$ 4,924,179	\$ 120,510,093	\$ 9,313,968	\$ 196,276,478	\$ 188,253,778	2.00%	\$ 3,429,494
14	2020	\$ 10,378,218	\$ (9,384,728)	\$ 36,118,145	\$ 25,900,049	\$ 5,047,284	\$ 133,588,020	\$ 9,500,247	\$ 211,147,235	\$ 203,124,535	2.00%	\$ 3,765,076
15	2021	\$ 10,585,782	\$ (9,572,423)	\$ 36,840,508	\$ 26,418,050	\$ 5,173,466	\$ 136,927,721	\$ 9,690,252	\$ 216,063,356	\$ 208,040,656	2.00%	\$ 4,062,491
16	2022	\$ 10,797,498	\$ (9,763,871)	\$ 37,577,318	\$ 26,946,411	\$ 5,302,803	\$ 140,350,914	\$ 9,884,057	\$ 221,095,129	\$ 213,072,429	2.00%	\$ 4,160,813
17	2023	\$ 11,013,448	\$ (9,959,148)	\$ 38,328,864	\$ 27,485,339	\$ 5,435,373	\$ 143,859,687	\$ 10,081,738	\$ 226,245,300	\$ 218,222,600	2.00%	\$ 4,261,449
18	2024	\$ 11,233,717	\$ (10,158,331)	\$ 39,095,442	\$ 28,035,046	\$ 5,571,257	\$ 147,456,179	\$ 10,283,373	\$ 231,516,681	\$ 223,493,981	2.00%	\$ 4,364,452
19	2025	\$ 11,458,391	\$ (10,361,498)	\$ 39,877,350	\$ 28,595,747	\$ 5,710,538	\$ 151,142,583	\$ 10,489,040	\$ 236,912,152	\$ 228,889,452	2.00%	\$ 4,469,880
20	2026	\$ 11,687,559	\$ (10,568,728)	\$ 40,674,898	\$ 29,167,661	\$ 5,853,302	\$ 154,921,148	\$ 10,698,821	\$ 242,434,661	\$ 234,411,961	2.00%	\$ 4,577,789
21	2027	\$ 11,921,310	\$ (10,780,102)	\$ 41,488,395	\$ 29,751,015	\$ 5,999,634	\$ 158,794,177	\$ 10,912,798	\$ 248,087,226	\$ 240,064,526	2.00%	\$ 4,688,239
22	2028	\$ 12,159,736	\$ (10,995,705)	\$ 42,318,163	\$ 30,346,035	\$ 6,149,625	\$ 162,764,031	\$ 11,131,054	\$ 253,872,940	\$ 245,850,240	2.00%	\$ 4,801,291
23	2029	\$ 12,402,931	\$ (11,215,619)	\$ 43,164,527	\$ 30,952,956	\$ 6,303,366	\$ 166,833,132	\$ 11,353,675	\$ 259,794,967	\$ 251,772,267	2.00%	\$ 4,917,005
24	2030	\$ 12,650,990	\$ (11,439,931)	\$ 44,027,817	\$ 31,572,015	\$ 6,460,950	\$ 171,003,960	\$ 11,580,748	\$ 265,856,549	\$ 257,833,849	2.00%	\$ 5,035,445
25	2031	\$ 12,904,010	\$ (11,668,730)	\$ 44,908,374	\$ 32,203,455	\$ 6,622,474	\$ 175,279,059	\$ 11,812,363	\$ 272,061,004	\$ 264,038,304	2.00%	\$ 5,156,677
26	2032	\$ 13,162,090	\$ (11,902,104)	\$ 45,806,541	\$ 32,847,524	\$ 6,788,036	\$ 179,661,036	\$ 12,048,610	\$ 278,411,732	\$ 270,389,032	2.00%	\$ 5,280,766
27	2033	\$ 13,425,332	\$ (12,140,146)	\$ 46,722,672	\$ 33,504,475	\$ 6,957,736	\$ 184,152,561	\$ 12,289,583	\$ 284,912,212	\$ 276,889,512	2.00%	\$ 5,407,781
	2034	\$ 13,693,838	\$ (12,382,949)	\$ 47,657,125	\$ 34,174,564	\$ 7,131,680	\$ 188,756,375	\$ 12,535,374	\$ 291,566,008	\$ 283,543,308	2.00%	\$ 5,537,790
Total Proceeds, 2007 - 2034 (Not Discounted)											\$ 88,379,288	
Present Value (\$2006), 2007 - 2034 @: 5.0%											\$ 36,233,023	

Source: S. B. Friedman & Company

- [1] The TID is assumed to be established with a base year of 2007 (estimated here using 2006 assessed value) and TID Year One in 2007.
- [2] Properties in the City of Milwaukee are reassessed every year as of January 1.
- [3] Deductions resulting from replacement of value of existing structures with value from redevelopment/rehab projects
- [4] Additions resulting from new development, adjusted for inflation.
- [5] AV after all adjustments, adjusted for inflation.
- [6] Total AV (adjusted for inflation) less Base AV.
- [7] The assessed value tax rate is projected to decline at an annual rate of 2.64%, stabilizing at a tax rate of 2.0%.
- [8] Tax revenues are collected one year after the taxing year at a 100% collection rate.

- **Base Value.** The Brewery Project site has a 2006 assessed value (AV) of approximately \$8 million. Because little, if any, change is anticipated to occur on the site prior to January 1, 2007, we have assumed that the site will not experience an increase in AV for 2007. Therefore the base AV of the Brewery Project is assumed to be approximately \$8 million.
- **Timing of Assessments.** The assessed value of each land use included in the Brewery Project concept plan was assumed to come onto the City tax rolls based on the following schedule:
 - **Apartments.** The success of the Park East Enterprise Lofts project suggests significant demand for the type of mixed-income apartments anticipated for Building 9. Based on a potential development time frame indicated by Gorman, the prospective purchaser of this building, *SBFCo* assumed that this property will be rehabilitated and fully leased by the end of 2008, making it fully assessed in 2009.
 - **Residential Condominiums.** As indicated in the Residential Feasibility section of Chapter 2, *SBFCo* developed an assumption that Brewery Project as a whole will be able to close an average of 36 units per year. Because all of the units contemplated in the concept plan are new construction for which specific developers have not yet been identified, we have assumed that units will begin to be completed and occupied later than the apartment units – the first 36 units are assumed to be occupied in 2009 and fully assessed in 2010.
 - **General Retail (Excluding Grocery).** Much of the retail space contemplated in the Brewery Project concept plan is contained within mixed-use buildings with residential or office above. It is therefore generally assumed that retail space in each block is developed proportionately to the sellout of new residential units on the same or adjacent blocks, allowing for a one-year lag between residential occupancy and retail occupancy.
 - **Grocery.** The Grocery Feasibility section of Chapter 2 indicates that there may be support for a 54,000-square-foot specialty grocery at the Brewery Project as early as 2012. For the purposes of incremental property tax projections, *SBFCo* has assumed that the store will be fully assessed in 2012.
 - **Office.** The Office Feasibility section of Chapter 2 suggests a general absorption assumption of approximately 30,000 square feet of office space in the Brewery Project each year. This figure is generally reflected in the phasing assumptions for the Brewery Project, with modest variance to allow entire buildings to be fully assessed in a given year if they are within 5,000 square feet of this guideline.

Independently of the above absorption rate, the projections assume that Johnson Controls, the single largest office tenant anticipated for the Brewery Project

outside of the potential headquarters tenant for Block 5 occupies the second floor of building 29 in 2009, triggering a 2010 assessment of this space.

- **Hotel.** Development of the 120-room hotel is primarily assumed to support Johnson Controls, located in Building 29. It is therefore assumed that the hotel will be assessed 50% in 2010 (in parallel with the full assessment of Johnson Controls) and 50% in 2011.
- **Tax Rate.** Our analysis considered historical trends in the overall City of Milwaukee property tax rate over the past 5, 10, 15, and 20-year periods. The tax rate has trended downward over all of these analysis periods at compound annual rates ranging from about 1.4% (20-year history) to 3.6% (10-year history). For our analysis, *SBFCo* assumed a tax rate declining at 2.64%, the average rate of decline for the past five years (2000 through 2005). The overall tax rate is assumed to stabilize at 2% (\$20 per \$1,000 of taxable value), which is projected to occur in the year 2013.
- **Valuation Approach.** Brewery Project, LLC is acting as the master developer for the project and has not yet obtained any firm/binding redevelopment commitments from prospective land purchasers. Therefore, specific tenants have not yet been identified. Because income-based valuation of properties can vary greatly depending on assumptions related to specific end-users/tenants, *SBFCo* has used a comparables-based approach to valuation for the purpose of developing projections of incremental AV and property taxes.
 - **Retail Valuation.** *SBFCo* analyzed 2006 assessment data one-story retail properties and grocery stores on a City-wide basis, focusing on buildings less than ten years old (sample size permitting). The analysis resulted in an estimated AV of \$120 per square foot for general retail and \$80 per square foot for grocery stores (both figures in 2006 dollars).
 - **Condominium Valuation.** The assessed value of residential condominiums was estimated using 2006 AV data for developments that are five years old or less and located in the aldermanic districts in and around Downtown Milwaukee (districts 3, 4, and 6). It is estimated that residential condominiums will have an AV of \$225 per square foot (2006 dollars).
 - **Office Valuation.** The assessed value of new construction office buildings (\$100 per square foot) was estimated using 2006 AV data for class B office buildings built since 1970. The assessed value of office space in rehabilitated buildings (\$80 per square foot) was estimated using the weighted average of the 2006 AV per square foot for The Tannery and the Time Warner Cable building in Schlitz Park.
 - **Apartment Valuation.** The sole site on which rental apartments are anticipated to be developed is Building 9. In this building, Gorman & Company, Inc. (Gorman) is proposing to develop a mixed-income rental project partially financed by Low-Income Housing Tax Credits (LIHTCs), including units offered at rent levels

affordable to households earning up to 50%-60% of area median income. Because this property will collect less rental income than if its units were 100% market-rate, *SBFCo* assumed that it would be assessed at a lower level than market-rate properties of similar size and quality. We assumed that it would be assessed similarly to an existing rental property of similar unit composition developed by Gorman in the Walker's Point neighborhood. The 2006 AV per square foot for this property is \$36, the assumption used to value Building 9.

- **Parking Valuation.** To be conservative, *SBFCo* assumed that all of the structured parking included in Brewery Project, LLC's preliminary concept plan will be directly associated with a commercial or residential use, rather than separately owned and operated as a pay-to-park facility. Because the parking structures would not directly generate any income under this scenario, the TIF projections do not assign a distinct value to them. It is assumed that the value of the parking is incorporated into the per-square-foot value of the residential and commercial properties with which the parking is associated.
- **Inflation of Property Values.** Residential units are projected to increase by 2.5% annually, while all other project components are projected to grow in value at 2% per year. Because all valuations are based on current tax comparables, the per-square-foot valuation of all uses at the time of initial assessment reflects these inflation rates.
- **Personal Property Valuation.** Because of the flexible nature of the potential program and buildout time frame, the projections do not include estimates of personal property value.

5. Projected Amortization of TID Debt

The proposed structure of TIF assistance for redevelopment of the Pabst Brewery complex by the Brewery Project, LLC is in the form of an up-front grant and subsequent grants triggered by predetermined project performance metrics. *SBFCo* assumes that a series of GO-backed bonds would need to be issued in order to facilitate this structure. The amortization of these bonds is projected using the following key assumptions:

- **Interest Rates.** Based on input from DCD and the Office of the Comptroller, *SBFCo* assumed an interest rate of 4.5% on the bonds, which would be issued with a term of 17 years, including two interest-only payments in years 1 and 2 followed by 15 years of level principal and interest payments. Shortfalls against the scheduled debt service would be covered by the local government investment pool and carry a 5.21% interest charge until paid off.
- **Issuance Date.** The projections assume that bonds are issued for the up-front assistance amount of \$13.6 million in mid-2007. Subsequent bonds triggered by additional project activity are assumed to be issued mid-year of their respective years.
- **Capitalized Interest Period.** Two years of capitalized interest are assumed to be incorporated into each bond issue.
- **Issuance Costs.** The projections assume an issuance costs allowance of 1.0% of total bond proceeds for each bond issuance.
- **Job Assistance and TID Administrative Costs.** These costs are assumed to be made available as part of the second and subsequent bond issuances.

TRIGGERS FOR ADDITIONAL CITY FUNDING

The initial proposed TIF assistance of approximately \$13.6 million is intended to assist BPLLC in building initial public infrastructure and readying certain sites and buildings within the complex for purchase and redevelopment. Under the proposed City assistance structure structure, additional TIF funding up to the projected maximum of \$29.0 million can be triggered after BPLLC has secured firm/binding redevelopment commitments from purchasers for projects that will create \$55 million in incremental AV – the approximate amount of value that would be needed to amortize the initial TIF contribution. When the \$55 million commitment threshold has been attained, each subsequent redevelopment commitment can trigger assistance equal to 20% of the projected stabilized assessed value of the purchaser’s proposed project, up to the overall maximum City contribution.

Based on the above framework, the proposed initial \$13.6 million up-front TIF grant to the Pabst City project would require a bond issue of approximately \$15.0 million. Assuming that firm/binding redevelopment commitments precede a project’s inclusion on the property tax roll by two years on average, *SBFCo*’s projections estimate that the project will surpass the \$55 million commitment threshold in 2010, at which time additional assistance could be triggered.

Figure 15 summarizes the projected schedule and amount of bond issuances.

Figure 15: Projected Schedule of TID Incremental TID Value and Bond Issuances

Issuance Number	Year of Issuance	Firm/Binding Commitments for Incremental Value (millions) [1]	Total Bond Issuance (Face Value in millions)	Net Bond Proceeds to Project (millions)
1	2007	\$0	\$15.0	\$13.6
2	2010	\$59.0	\$8.5	\$7.7
3	2011	\$80.9	\$4.8	\$4.3
4	2012	\$98.9	\$3.7	\$3.4
TOTAL			\$31.9	\$29.0

Note: numbers may not add due to rounding

[1] Assumes incremental value appearing on tax rolls represents a project commitment 2 years prior (e.g., 2007 commitments generate 2009 incremental AV).

Based on the incremental property tax revenue projections described in Chapter 4 and the bonding assumptions discussed above, the maximum City TIF contribution is projected to be fully amortized in 2028, or Year 22 of the proposed TID. **Figure 16** on the following page shows the projected amortization schedule.

A projected amortization schedule is provided as Appendix **Exhibit 7B** for the alternative development scenario in which the proposed retail program is halved and the proposed hotel project is developed instead as residential condominiums. Under this alternative development scenario, bond issuances two through four are delayed by one year relative to the schedule outlined in **Figure 15**, occurring in 2011 through 2013. The maximum City TIF contribution is projected to be paid off one year later than in the “base case” described above (2029, or TID Year 23). The TID is projected to achieve a positive fund balance and be able to prepay outstanding debt in 2028 (**TID Year 22**).

Figure 16
City of Milwaukee - The Brewery Project
Projected Amortization of TID Debt

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<i>1st Bond Issuance</i>			
Issuance Date			6/1/2007
Net Proceeds to Project	\$		13,600,000
Issuance Costs @	1.0%	\$	136,000
Cap Interest Allowance	2 Years	\$	1,236,240
Less Projected Available Up-Front Cash		\$	-
Cap Interest Allowance		\$	1,236,240
Total Bond		\$	14,972,240

<i>All Bond Issuances</i>			
Interest Rate on City Bonds			4.50%
Cap Interest Reserve (years of interest)			2
Cost of Funds- Local Gov't Investment Pool			5.21%
Issuance Costs @			1.0%

Year in which TID attains positive Fund Balance		2028
TID Year		22
Outstanding Principal when TID attains positive Fund Balance	\$	332,007
Annual Increment in this year	\$	4,801,291
Estimated Prepayment Years		0.1
Estimated TID Closeout with prepayment		2028
TID Year		22

Year of TID	Fiscal Year Beginning 1-Jun of:	TID Value & Revenue			Bond Issuances			Target P&I Payment	Cap Interest Payment	Annual Surplus/ (Shortfall)	Cumulative TID Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance
		Annual New AV Added to TID as of Jan. 1	Incremental AV of TID as of Jan. 1	Annual Inc. Tax Revenues Collected (Jan. 31) @ 100%	City Funding to Brewery Project	Cap Interest Reserve Bonding	Annual New Face Value of Bonds Issued [2]					
0	2006											
1	2007	\$ -	\$ -	\$ -	\$ 13,600,000	\$ 1,236,240	\$ 14,972,240	\$ -	\$ (618,120)	\$ -	\$ -	\$ -
2	2008	\$ -	\$ 160,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (618,120)	\$ -	\$ -	\$ -
3	2009	\$ 3,846,761	\$ 4,039,004	\$ 3,628	\$ -	\$ -	\$ -	\$ 1,394,122	\$ -	\$ (1,390,495)	\$ (1,390,495)	\$ (72,445)
4	2010	\$ 21,642,922	\$ 24,435,655	\$ 88,904	\$ 7,683,486	\$ 698,429	\$ 8,458,749	\$ 1,394,122	\$ (349,214)	\$ (1,305,218)	\$ (2,768,157)	\$ (144,221)
5	2011	\$ 19,021,645	\$ 43,282,223	\$ 523,652	\$ 4,334,236	\$ 393,982	\$ 4,771,560	\$ 1,394,122	\$ (546,205)	\$ (870,470)	\$ (3,782,848)	\$ (197,086)
6	2012	\$ 15,398,297	\$ 58,997,486	\$ 903,024	\$ 3,384,550	\$ 307,656	\$ 3,726,051	\$ 2,181,749	\$ (350,819)	\$ (1,278,725)	\$ (5,258,659)	\$ (273,976)
7	2013	\$ 21,671,178	\$ 80,874,468	\$ 1,198,378	\$ -	\$ -	\$ -	\$ 2,626,047	\$ (153,828)	\$ (1,427,669)	\$ (6,960,305)	\$ (362,632)
8	2014	\$ 16,458,606	\$ 98,878,526	\$ 1,617,489	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (1,355,504)	\$ (8,678,441)	\$ (452,147)
9	2015	\$ 17,067,783	\$ 117,800,199	\$ 1,977,571	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (995,423)	\$ (10,126,010)	\$ (527,565)
10	2016	\$ 15,785,172	\$ 135,854,926	\$ 2,356,004	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (616,990)	\$ (11,270,565)	\$ (587,196)
11	2017	\$ 15,273,324	\$ 153,855,175	\$ 2,717,099	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (255,895)	\$ (12,113,657)	\$ (631,122)
12	2018	\$ 14,458,926	\$ 171,474,702	\$ 3,077,103	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 104,110	\$ (12,640,668)	\$ (658,579)
13	2019	\$ 13,148,624	\$ 188,253,778	\$ 3,429,494	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 456,500	\$ (12,842,747)	\$ (669,107)
14	2020	\$ 10,633,385	\$ 203,124,535	\$ 3,765,076	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 792,082	\$ (12,719,772)	\$ (662,700)
15	2021	\$ -	\$ 208,040,656	\$ 4,062,491	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 1,089,497	\$ (12,292,975)	\$ (640,464)
16	2022	\$ -	\$ 213,072,429	\$ 4,160,813	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 1,187,820	\$ (11,745,619)	\$ (611,947)
17	2023	\$ -	\$ 218,222,600	\$ 4,261,449	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 1,288,455	\$ (11,069,111)	\$ (576,701)
18	2024	\$ -	\$ 223,493,981	\$ 4,364,452	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 2,785,581	\$ (8,860,231)	\$ (461,618)
19	2025	\$ -	\$ 228,889,452	\$ 4,469,880	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 2,891,008	\$ (6,430,840)	\$ (335,047)
20	2026	\$ -	\$ 234,411,961	\$ 4,577,789	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 2,998,918	\$ (3,766,969)	\$ (196,259)
21	2027	\$ -	\$ 240,064,526	\$ 4,688,239	\$ -	\$ -	\$ -	\$ 791,245	\$ -	\$ 3,896,994	\$ (66,234)	\$ (3,451)
22	2028	\$ -	\$ 245,850,240	\$ 4,801,291	\$ -	\$ -	\$ -	\$ 346,947	\$ -	\$ 4,454,344	\$ 4,384,659	\$ 228,441
23	2029	\$ -	\$ 251,772,267	\$ 4,917,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,917,005	\$ 9,530,104	\$ 496,518
24	2030	\$ -	\$ 257,833,849	\$ 5,035,445	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,035,445	\$ 15,062,068	\$ 784,734
25	2031	\$ -	\$ 264,038,304	\$ 5,156,677	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,156,677	\$ 21,003,479	\$ 1,094,281
26	2032	\$ -	\$ 270,389,032	\$ 5,280,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,280,766	\$ 27,378,526	\$ 1,426,421
27	2033	\$ -	\$ 276,889,512	\$ 5,407,781	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,407,781	\$ 34,212,728	\$ 1,782,483
	2034	\$ -	\$ 283,543,308	\$ 5,537,790	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,537,790	\$ 41,533,001	\$ 2,163,869
TOTALS				\$ 88,379,288	\$ 29,002,271	\$ 2,636,306	\$ 31,928,600	\$ 44,594,903	\$ (2,636,306)	\$ 43,784,385		

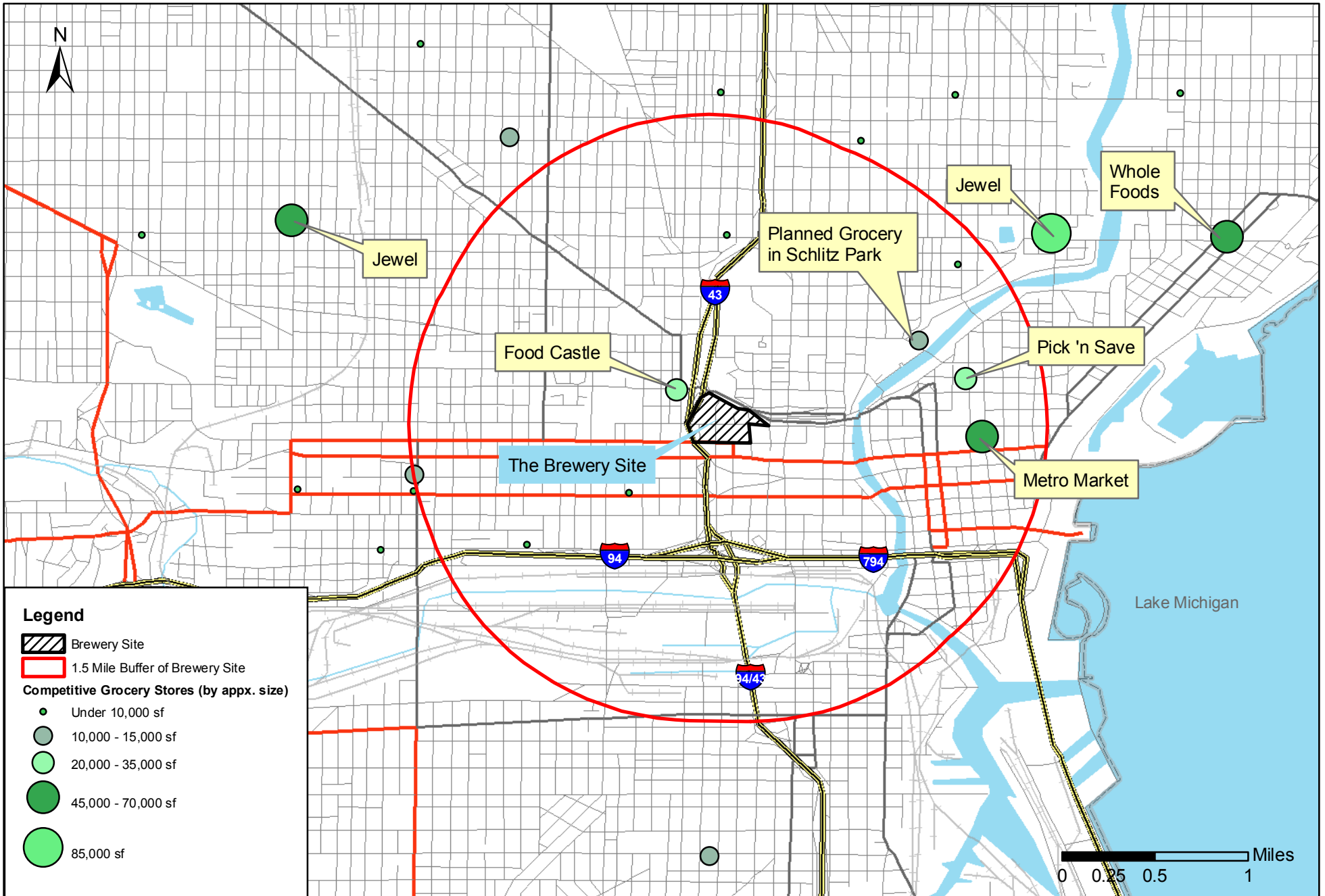
Source: S. B. Friedman & Company

Note: These projections are based on estimates, assumptions, and other information developed from research of the market, knowledge of the industry, and meetings during which we obtained certain information. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those shown here and the variations may be material.

[1] Assumes that firm/binding commitments are obtained 2 years preceding the addition of corresponding AV to the TID. After initial assistance in 2007, each subsequent issuance includes proportionate shares of job training and administration costs.

[2] Includes \$29 million of net proceeds to project; \$2.6 million of capitalized interest; and 1% issuance costs on all bonds.

6. Appendix



City of Milwaukee
Brewery Project Economic Feasibility Analysis
Grocery Absorption Potential Analysis

Exhibit 1: Competitive Grocery Stores

Appendix Exhibit 2: Claritas Projections of Households and Grocery Store Expenditures in Brewery Project Market Area

Exhibit 2A: Market Area Households and Grocery Store Expenditures, Excluding Planned/Proposed Development in the Park East TID

	2005 Estimate		2010 Projection	
	Households	Grocery Expenditures	Households	Grocery Expenditures
Park East TID	125	\$471,439	124	\$529,314
Balance of Market Area	22,528	\$131 million	23,432	\$153 million
Total Market Area [1]	22,653	\$131.5 million	23,556	\$153.5 million

Source: Claritas

[1] Figures do not assume any households residing at the Pabst Brewery site in 2005 or 2010.

Appendix Exhibit 3: Methodology for Projecting Future Market Area Grocery Store Expenditures

Household Growth

As described in the residential feasibility analysis earlier in this chapter, the Park East TID Economic Feasibility Study projects that the Park East TID will grow by 200 households per year through 2010 and 100 households per year through the end of the modeling period (2015). Based on developers' indicated construction and occupancy schedules for known projects, it is assumed that no new households will move into the Park East TID in 2007.

In addition, as described in the Residential Feasibility section of this chapter, the Brewery Project is assumed to add 90 households in 2008 (mixed-income apartments on Block 4) and 36 households per year between 2009 and the end of the modeling period (2015). The aggregate household growth estimate is depicted in **Exhibit 3A** below.

Exhibit 3A: Park East TID/Brewery Project Projected Household Growth, 2008-2015

	2008	2009	2010	2011	2012	2013	2014	2015	Total
Park East TID	200	200	200	100	100	100	100	100	1,100
Brewery Project – Affordable Units	63								
Brewery Project – Market-Rate Units [1]	27	36	36	36	36	36	36	36	342
Total (Annual)	290	236	236	136	136	136	136	136	1,442
Total (Cumulative)	290	526	762	898	1,034	1,170	1,306	1,442	

[1] Includes both rental and for-sale units

Source: *S. B. Friedman & Company*

Household Income and Grocery Spending

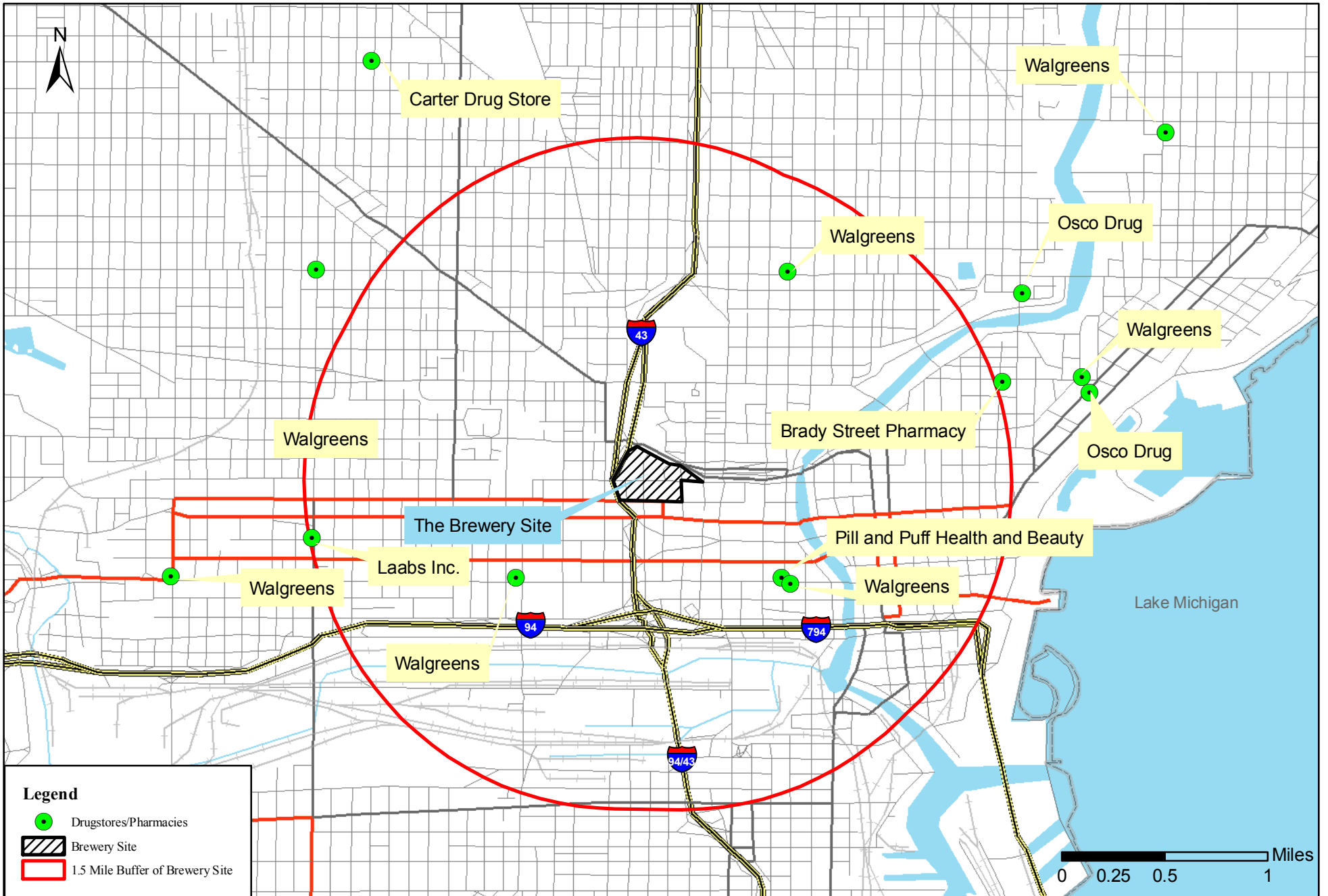
SBFCo used the projected asking prices for approved and proposed residential condominium units in the Park East TID to estimate the income levels of future households living in both the Park East TID and in the market-rate condominium units at the Brewery Project. We calculated the minimum household income required to afford a condominium unit in the market area by using the average condominium price (\$300,000 in 2006 dollars), market-rate mortgage terms, and an allowance for 30% of income to be spent on housing costs (including real estate taxes). This analysis indicates that households buying residential condominiums in the Park East TID and Brewery Project must earn approximately \$93,000 (2006 dollars) per year to afford an average-priced unit.

Average household income for the 27 market-rate rental units anticipated for Building 9 was estimated using average anticipated unit size and current (2006) per-square-foot rent levels at a sample of market-rate rental properties in Downtown. Based on an average unit size of approximately 1,100 net square feet and average rent per square foot of \$1.36, *SBFCo* estimated that market-rate apartments in Building 9 will be leased for approximately \$1,500 per month.

Assuming that households will spend 30% of their income on housing costs, we arrive at an average household income of \$60,000 (2006 dollars).

It is anticipated that the households occupying the 63 affordable rental units contemplated as part of Building 9 will be required to meet the income eligibility requirements of the federal Low-Income Housing Tax Credits (LIHTC) program. Under this program, households are eligible to rent an LIHTC-funded apartment if their household income is no more than the limit established for that specific building – likely to be 60% of area median income (AMI) in this case. Information obtained from the Wisconsin Housing and Economic Development Authority (WHEDA) indicates a 2006 median income for the Milwaukee-Waukesha-West Allis Metropolitan Statistical Area (MSA) of \$66,800. Therefore, 60% of this figure, or \$40,080, was assumed as the income for households occupying the 63 income-restricted units in Building 9.

SBFCo assumed that the new households estimated above would spend 5.9% of their income at grocery stores—the percentage found on average for the Milwaukee region by the Bureau of Labor Statistics (BLS) in a 2002-2003 study.

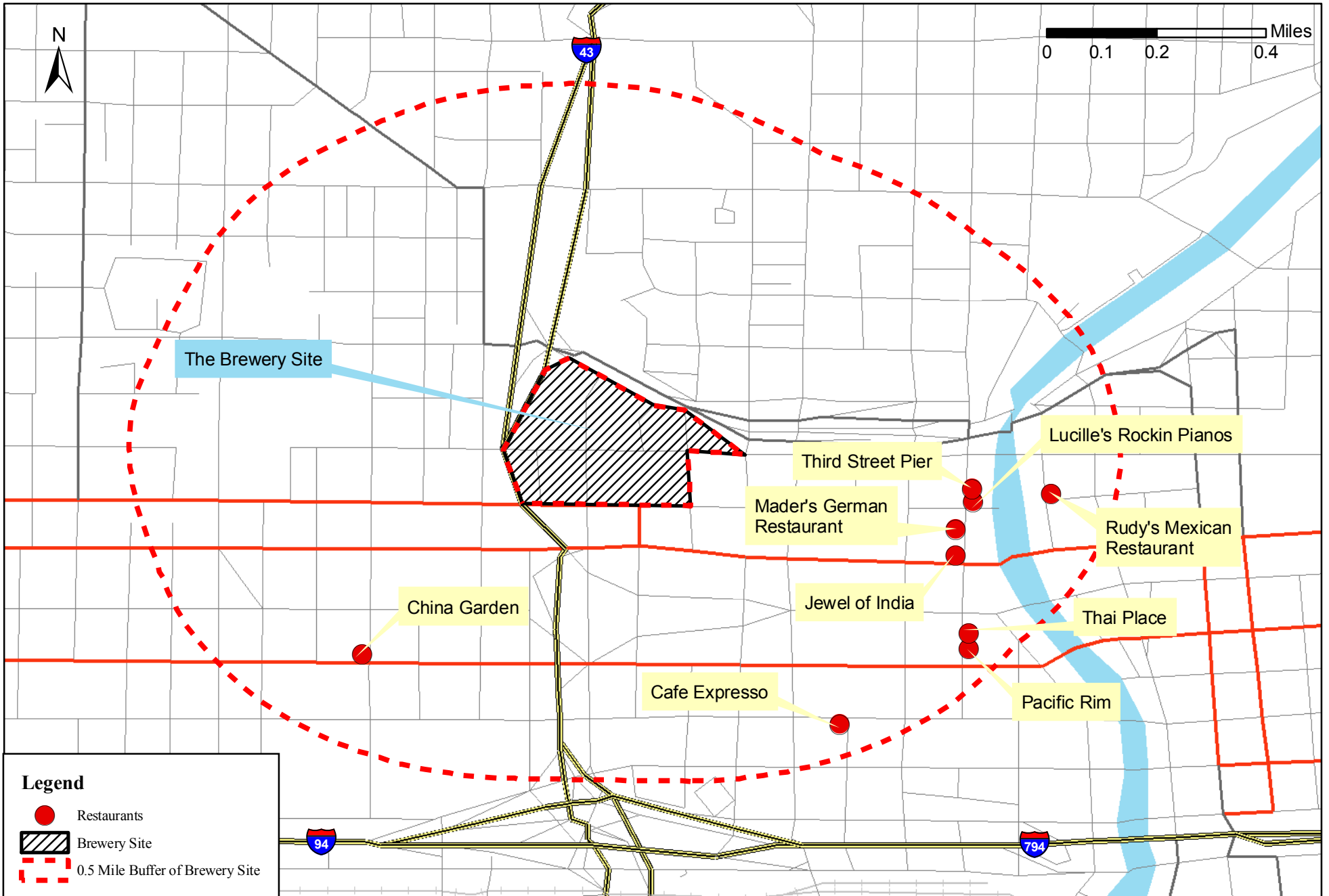


City of Milwaukee
Brewery Project Economic Feasibility Analysis
Drugstore/Pharmacy Market Potential Analysis

Exhibit 4: Competitive Drugstores/Pharmacies

Appendix Exhibit 5: Drugstore Expenditure Methodology

The drugstore market potential analysis utilized the same household growth and income projections developed for the grocery store feasibility analysis (see **Appendix Exhibit 3**). The 2002-2003 Consumer Expenditure Study for the Milwaukee MSA (conducted by the Bureau of Labor Statistics) indicates that households spend an average of 1.1% of their income on personal care products and services. *SBFCo* assumed that half of this amount (0.56% of household income) is spent at drugstores, and applied that proportion to aggregate household income for anticipated new households at the Brewery Project and in the Park East TID. This figure was then added to the base estimate of consumer expenditures at health and personal care stores, obtained from Claritas.



Legend

- Restaurants
- ▨ Brewery Site
- - - 0.5 Mile Buffer of Brewery Site

City of Milwaukee
Brewery Project Economic Feasibility Analysis
Dine-In Restaurant Market Potential Analysis

Exhibit 6: Dine-In Restaurants within Half Mile of the Brewery Site

Exhibit 7A
City of Milwaukee- Brewery Project Economic Feasibility
Projected Incremental Property Tax Revenues (Alternative) - 50% Retail Reduction & Hotel Replaced by Condominiums

DRAFT

Inputs and Assumptions	
2007 Est'd. Base Value	\$ 8,022,700
Tax Collection Rate	100%

Year of TID	Assessment Year (Jan. 1) [1], [2]	Inflated Base AV of All TID Parcels	Cumulative AV Deductions [3]	Cumulative AV Additions [4]					TOTAL AV [5]	Incremental AV Above Base AV [6]	Tax Rate [7]	Tax Revenues Collected (Jan. 31) @ 100% [8]
				Real Property								
				Office	Retail	Rental Residential	For-Sale Residential	Hotel				
0	2006	\$ 8,022,700	\$ -									
1	2007	\$ 8,022,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,022,700	\$ -	2.32%	\$ -
2	2008	\$ 8,183,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,183,154	\$ 160,454	2.26%	\$ -
3	2009	\$ 8,346,817	\$ (135,045)	\$ -	\$ -	\$ 3,846,761	\$ -	\$ -	\$ 12,058,534	\$ 4,035,834	2.20%	\$ 3,628
4	2010	\$ 8,513,753	\$ (1,659,278)	\$ 7,911,194	\$ -	\$ 3,942,930	\$ 9,834,973	\$ -	\$ 28,543,572	\$ 20,520,872	2.14%	\$ 88,835
5	2011	\$ 8,684,028	\$ (2,486,064)	\$ 11,130,106	\$ 952,709	\$ 4,041,503	\$ 20,161,694	\$ -	\$ 42,483,977	\$ 34,461,277	2.09%	\$ 439,759
6	2012	\$ 8,857,709	\$ (3,362,522)	\$ 14,474,611	\$ 1,943,527	\$ 4,142,541	\$ 30,998,605	\$ -	\$ 57,054,470	\$ 49,031,770	2.03%	\$ 718,987
7	2013	\$ 9,034,863	\$ (4,763,008)	\$ 18,899,371	\$ 7,935,918	\$ 4,246,104	\$ 42,364,760	\$ -	\$ 77,718,009	\$ 69,695,309	2.00%	\$ 995,951
8	2014	\$ 9,215,561	\$ (5,266,692)	\$ 22,857,950	\$ 9,105,658	\$ 4,352,257	\$ 54,279,849	\$ -	\$ 94,544,583	\$ 86,521,883	2.00%	\$ 1,393,906
9	2015	\$ 9,399,872	\$ (5,865,969)	\$ 26,642,246	\$ 10,734,907	\$ 4,461,063	\$ 66,483,220	\$ -	\$ 111,855,340	\$ 103,832,640	2.00%	\$ 1,730,438
10	2016	\$ 9,587,869	\$ (6,524,727)	\$ 29,515,561	\$ 12,228,397	\$ 4,572,590	\$ 79,032,420	\$ -	\$ 128,412,109	\$ 120,389,409	2.00%	\$ 2,076,653
11	2017	\$ 9,779,627	\$ (7,191,408)	\$ 32,682,143	\$ 13,241,842	\$ 4,686,905	\$ 92,167,527	\$ -	\$ 145,366,636	\$ 137,343,936	2.00%	\$ 2,407,788
12	2018	\$ 9,975,219	\$ (7,869,279)	\$ 34,715,633	\$ 14,327,079	\$ 4,804,077	\$ 105,909,995	\$ -	\$ 161,862,724	\$ 153,840,024	2.00%	\$ 2,746,879
13	2019	\$ 10,174,723	\$ (8,512,906)	\$ 35,409,946	\$ 15,211,758	\$ 4,924,179	\$ 120,510,093	\$ -	\$ 177,717,794	\$ 169,695,094	2.00%	\$ 3,076,800
14	2020	\$ 10,378,218	\$ (8,996,818)	\$ 36,118,145	\$ 15,800,098	\$ 5,047,284	\$ 136,943,078	\$ -	\$ 195,290,005	\$ 187,267,305	2.00%	\$ 3,393,902
15	2021	\$ 10,585,782	\$ (9,491,714)	\$ 36,840,508	\$ 16,116,100	\$ 5,173,466	\$ 154,122,394	\$ -	\$ 213,346,536	\$ 205,323,836	2.00%	\$ 3,745,346
16	2022	\$ 10,797,498	\$ (9,763,871)	\$ 37,577,318	\$ 16,438,422	\$ 5,302,803	\$ 161,500,362	\$ -	\$ 221,852,532	\$ 213,829,832	2.00%	\$ 4,106,477
17	2023	\$ 11,013,448	\$ (9,959,148)	\$ 38,328,864	\$ 16,767,191	\$ 5,435,373	\$ 165,537,871	\$ -	\$ 227,123,598	\$ 219,100,898	2.00%	\$ 4,276,597
18	2024	\$ 11,233,717	\$ (10,158,331)	\$ 39,095,442	\$ 17,102,535	\$ 5,571,257	\$ 169,676,318	\$ -	\$ 232,520,936	\$ 224,498,236	2.00%	\$ 4,382,018
19	2025	\$ 11,458,391	\$ (10,361,498)	\$ 39,877,350	\$ 17,444,585	\$ 5,710,538	\$ 173,918,226	\$ -	\$ 238,047,593	\$ 230,024,893	2.00%	\$ 4,489,965
20	2026	\$ 11,687,559	\$ (10,568,728)	\$ 40,674,898	\$ 17,793,477	\$ 5,853,302	\$ 178,266,181	\$ -	\$ 243,706,689	\$ 235,683,989	2.00%	\$ 4,600,498
21	2027	\$ 11,921,310	\$ (10,780,102)	\$ 41,488,395	\$ 18,149,347	\$ 5,999,634	\$ 182,722,836	\$ -	\$ 249,501,420	\$ 241,478,720	2.00%	\$ 4,713,680
22	2028	\$ 12,159,736	\$ (10,995,705)	\$ 42,318,163	\$ 18,512,334	\$ 6,149,625	\$ 187,290,907	\$ -	\$ 255,435,061	\$ 247,412,361	2.00%	\$ 4,829,574
23	2029	\$ 12,402,931	\$ (11,215,619)	\$ 43,164,527	\$ 18,882,580	\$ 6,303,366	\$ 191,973,179	\$ -	\$ 261,510,964	\$ 253,488,264	2.00%	\$ 4,948,247
24	2030	\$ 12,650,990	\$ (11,439,931)	\$ 44,027,817	\$ 19,260,232	\$ 6,460,950	\$ 196,772,509	\$ -	\$ 267,732,566	\$ 259,709,866	2.00%	\$ 5,069,765
25	2031	\$ 12,904,010	\$ (11,668,730)	\$ 44,908,374	\$ 19,645,436	\$ 6,622,474	\$ 201,691,821	\$ -	\$ 274,103,385	\$ 266,080,685	2.00%	\$ 5,194,197
26	2032	\$ 13,162,090	\$ (11,902,104)	\$ 45,806,541	\$ 20,038,345	\$ 6,788,036	\$ 206,734,117	\$ -	\$ 280,627,024	\$ 272,604,324	2.00%	\$ 5,321,614
27	2033	\$ 13,425,332	\$ (12,140,146)	\$ 46,722,672	\$ 20,439,112	\$ 6,957,736	\$ 211,902,470	\$ -	\$ 287,307,175	\$ 279,284,475	2.00%	\$ 5,452,086
	2034	\$ 13,693,838	\$ (12,382,949)	\$ 47,657,125	\$ 20,847,894	\$ 7,131,680	\$ 217,200,032	\$ -	\$ 294,147,620	\$ 286,124,920	2.00%	\$ 5,585,690
Total Proceeds, 2007 - 2034 (Not Discounted)											\$ 85,789,279	
Present Value (\$2006), 2007 - 2034 @: 5.0%											\$ 34,603,911	

Source: S. B. Friedman & Company

- [1] The TID is assumed to be established with a base year of 2007 (estimated here using 2006 assessed value) and TID Year One in 2007.
- [2] Properties in the City of Milwaukee are reassessed every year as of January 1.
- [3] Deductions resulting from replacement of value of existing structures with value from redevelopment/rehab projects
- [4] Additions resulting from new development, adjusted for inflation.
- [5] AV after all adjustments, adjusted for inflation.
- [6] Total AV (adjusted for inflation) less Base AV.
- [7] The assessed value tax rate is projected to decline at an annual rate of 2.64%, stabilizing at a tax rate of 2.0%.
- [8] Tax revenues are collected one year after the taxing year at a 100% collection rate.

Exhibit 7B

City of Milwaukee - The Brewery Project

Projected Amortization of TID Debt (Alternative) - 50% retail Reduction & Hotel Replaced by Condominiums

DRAFT

1st Bond Issuance

Issuance Date	6/1/2007	
Net Proceeds to Project	\$	13,600,000
Issuance Costs @ 1.0%	\$	136,000
Cap Interest Allowance 2 Years	\$	1,236,240
Less Projected Available Up-Front Cash	\$	-
Cap Interest Allowance	\$	1,236,240
Total Bond	\$	14,972,240

All Bond Issuances

Interest Rate on City Bonds	4.50%
Cap Interest Reserve (years of interest)	2
Cost of Funds- Local Gov't Investment Pool	5.21%
Issuance Costs @	1.0%

Year in which TID attains positive Fund Balance	2028
TID Year	22
Outstanding Principal when TID attains positive Fund Balance	\$ 754,643
Annual Increment in this year	\$ 4,829,574
Estimated Prepayment Years	0.2
Estimated TID Closeout with prepayment	2028
TID Year	22

Year of TID	Fiscal Year Beginning 1-Jun of:	TID Value & Revenue			Bond Issuances			Target P&I Payment	Cap Interest Payment	Annual Surplus/ (Shortfall)	Cumulative TID Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance
		Annual New AV Added to TID as of Jan. 1	Incremental AV of TID as of Jan. 1	Annual Inc. Tax Revenues Collected (Jan. 31) @ 100%	City Funding to Brewery Project	Cap Interest Reserve Bonding	Annual New Face Value of Bonds Issued [2]					
0	2006											
1	2007	\$ -	\$ -	\$ -	\$ 13,600,000	\$ 1,236,240	\$ 14,972,240	\$ -	\$ (618,120)	\$ -	\$ -	\$ -
2	2008	\$ -	\$ 160,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (618,120)	\$ -	\$ -	\$ -
3	2009	\$ 3,846,761	\$ 4,035,834	\$ 3,628	\$ -	\$ -	\$ -	\$ 1,394,122	\$ -	\$ (1,390,495)	\$ (1,390,495)	\$ (72,445)
4	2010	\$ 17,746,166	\$ 20,520,872	\$ 88,835	\$ -	\$ -	\$ -	\$ 1,394,122	\$ -	\$ (1,305,288)	\$ (2,768,227)	\$ (144,225)
5	2011	\$ 14,094,245	\$ 34,461,277	\$ 439,759	\$ 9,960,364	\$ 905,397	\$ 10,965,365	\$ 1,394,122	\$ (452,699)	\$ (954,363)	\$ (3,866,815)	\$ (201,461)
6	2012	\$ 14,426,534	\$ 49,031,770	\$ 718,987	\$ 3,089,517	\$ 280,837	\$ 3,401,249	\$ 1,394,122	\$ (593,117)	\$ (675,135)	\$ (4,743,411)	\$ (247,132)
7	2013	\$ 20,679,979	\$ 69,695,309	\$ 995,951	\$ 2,352,390	\$ 213,832	\$ 2,589,746	\$ 2,415,149	\$ (247,335)	\$ (1,419,199)	\$ (6,409,742)	\$ (333,948)
8	2014	\$ 15,447,583	\$ 86,521,883	\$ 1,393,906	\$ -	\$ -	\$ -	\$ 2,731,852	\$ (106,916)	\$ (1,337,946)	\$ (8,081,635)	\$ (421,053)
9	2015	\$ 15,620,648	\$ 103,832,640	\$ 1,730,438	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (1,242,556)	\$ (9,745,244)	\$ (507,727)
10	2016	\$ 14,506,380	\$ 120,389,409	\$ 2,076,653	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (896,341)	\$ (11,149,312)	\$ (580,879)
11	2017	\$ 14,504,446	\$ 137,343,936	\$ 2,407,788	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (565,205)	\$ (12,295,397)	\$ (640,590)
12	2018	\$ 13,638,526	\$ 153,840,024	\$ 2,746,879	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ (226,115)	\$ (13,162,102)	\$ (685,746)
13	2019	\$ 12,550,486	\$ 169,695,094	\$ 3,076,800	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 103,807	\$ (13,744,041)	\$ (716,065)
14	2020	\$ 13,704,338	\$ 187,267,305	\$ 3,393,902	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 420,908	\$ (14,039,197)	\$ (731,442)
15	2021	\$ 13,755,738	\$ 205,323,836	\$ 3,745,346	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 772,353	\$ (13,998,286)	\$ (729,311)
16	2022	\$ 3,524,908	\$ 213,829,832	\$ 4,106,477	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 1,133,483	\$ (13,594,114)	\$ (708,253)
17	2023	\$ -	\$ 219,100,898	\$ 4,276,597	\$ -	\$ -	\$ -	\$ 2,972,994	\$ -	\$ 1,303,603	\$ (12,998,764)	\$ (677,236)
18	2024	\$ -	\$ 224,498,236	\$ 4,382,018	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 2,803,147	\$ (10,872,853)	\$ (566,476)
19	2025	\$ -	\$ 230,024,893	\$ 4,489,965	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 2,911,093	\$ (8,528,235)	\$ (444,321)
20	2026	\$ -	\$ 235,683,989	\$ 4,600,498	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 3,021,627	\$ (5,950,930)	\$ (310,043)
21	2027	\$ -	\$ 241,478,720	\$ 4,713,680	\$ -	\$ -	\$ -	\$ 1,578,871	\$ -	\$ 3,134,809	\$ (3,126,165)	\$ (162,873)
22	2028	\$ -	\$ 247,412,361	\$ 4,829,574	\$ -	\$ -	\$ -	\$ 557,844	\$ -	\$ 4,271,730	\$ 982,692	\$ 51,198
23	2029	\$ -	\$ 253,488,264	\$ 4,948,247	\$ -	\$ -	\$ -	\$ 241,141	\$ -	\$ 4,707,106	\$ 5,740,997	\$ 299,106
24	2030	\$ -	\$ 259,709,866	\$ 5,069,765	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,069,765	\$ 11,109,868	\$ 578,824
25	2031	\$ -	\$ 266,080,685	\$ 5,194,197	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,194,197	\$ 16,882,889	\$ 879,599
26	2032	\$ -	\$ 272,604,324	\$ 5,321,614	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,321,614	\$ 23,084,102	\$ 1,202,682
27	2033	\$ -	\$ 279,284,475	\$ 5,452,086	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,452,086	\$ 29,738,870	\$ 1,549,395
	2034	\$ -	\$ 286,124,920	\$ 5,585,690	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,585,690	\$ 36,873,954	\$ 1,921,133
TOTALS				\$ 85,789,279	\$ 29,002,271	\$ 2,636,306	\$ 31,928,600	\$ 44,594,903	\$ (2,636,306)	\$ 41,194,375		

Source: S. B. Friedman & Company

Note: These projections are based on estimates, assumptions, and other information developed from research of the market, knowledge of the industry, and meetings during which we obtained certain information. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those shown here and the variations may be material.

[1] Assumes that firm/binding commitments are obtained [1] 2 years preceding the addition of corresponding AV to the TID. After initial assistance in 2007, each subsequent issuance includes proportionate shares of job training and administration costs.

[2] Includes \$29 million of net proceeds to project; \$2.6 million of capitalized interest; and 1% issuance costs on all bonds.