

City of Milwaukee
Proposed Bookends Project and TID (TID#X)

Economic Feasibility Study

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1. Project Description and Study Approach

The site of the proposed Bookends project (“Project”) is located at the northeast corner of Kilbourn and Van Buren Avenues in downtown Milwaukee. As proposed, the 19-story Bookends will include rental apartments, structured parking, and street-level retail space. The proposed program specifically includes:

- **Apartments**—238,000 square feet for 224 units on floors six through 19.
- **Structured Parking**—292 spaces on floors one through five.
- **Retail**—3,000 square feet of retail on the first floor.

Bookends North, LLC (“the Developer”) is a Wisconsin Limited Liability Company owned 50% by New Land Development, LLP and 50% by Wiechman Enterprises. The ownership structure as the project proceeds has not been finalized at this time, but organization documents and final structure will be provided within the next 1-2 months.

The Developer has requested a loan guarantee (“City Guarantee”) from the City of Milwaukee (“the City”) for the Project. The City Guarantee would secure the principal balance of a proposed loan that would be provided by a subordinate lender (“Subordinate Loan”). The proposed loan guarantee amount is **\$3.45 million**. Additional detail on the proposed City assistance parameters is included in the “Financing Structure” section in Chapter 2.

To support the City Guarantee to the Bookends project, the City is proposing the creation of a Tax Incremental District (TID) that would encompass only the Project. Unlike typical TIDs in Milwaukee, this TID would be a contingent mechanism to provide protection to the City’s general fund if the guarantee needs to be funded. Additional detail on the proposed TID is included in Chapter 3.

Study Approach

In addition to reviewing the developer’s overall pro forma for the Bookends project, *S.B. Friedman & Company* (“*SBFCo*”), in conjunction with construction consultants The Concord Group (“Concord”), reviewed and considered the following key factors affecting the TID feasibility of the proposed project:

- Construction cost budget and supplemental information provided by KBS on behalf of the developer
- Key financing assumptions embedded in the Developer’s pro formas
- Assessment techniques and assumptions likely to be used as a basis for property taxation, based on key informant interviews with the City of Milwaukee Assessor’s Office
- Real property assessment data from the City Assessor’s Office on the Project taxkeys

- Real property assessment data for other comparable properties elsewhere in Milwaukee to validate the potential assessed valuation of the project
- Potential bonding assumptions as provided by DCD and the Office of the City Comptroller to be used in evaluating financing capacity

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2. Need for Financial Assistance

Pursuant to our engagement with the City of Milwaukee, *SBFCo* reviewed key assumptions included in the developer's pro forma for the Bookends project, as well as the resulting implications on the need for a City Guarantee.

Project Costs, Revenues, and Financing Parameters

SBFCo, with the assistance of Concord, reviewed costs, revenues, and financing structure/parameters included in the developer's proposed project budget.

The Project is anticipated to obtain support for its senior debt via the HUD 221(d)(4) loan guarantee program. In this program, HUD provides the senior lenders for rental apartment projects with a financial guarantee, provided the project is underwritten within HUD standards, which include certain requirements as to maximum loan size, required reserves, and mortgage insurance payments. In turn, this guarantee allows the project to raise capital at attractive rates and a 40-year amortization schedule. The 221(d)(4) loan is anticipated to fund approximately 86% of project costs.

Market Studies

As part of the HUD underwriting parameters, the Developer provided two rental apartment market studies – the first by Tracy Cross & Associates (completed in August of 2008), and the second by Integra Realty Resources (completed in July of 2009). These market studies suggest the following:

- Little new supply has been added to the Milwaukee rental market over the past several years, and condominium conversions are removing some rental product (including the high-end Lake Bluff) from the market.
- Demand is likely to exist for additional luxury rental apartment units in the Downtown Milwaukee market over the next several years, and this demand is sufficient to occupy the proposed project at a reasonable capture rate.
- The studies identify rents in the \$1.80 to \$1.90 per square foot per month range as the highest observed to date in the Milwaukee market. However, based on the lack of recent construction activity (and therefore the fact that the Bookends would be substantially newer than other luxury product), plus the fact that the Bookends is proposed with a higher amenity/finish level than the comparables, both studies suggest Bookends could achieve rents at the proposed \$2.09 per square foot level.

The Developer has indicated that, to be conservative, the pro forma submitted to the City reflects rents of \$2.09 per square foot, the base rent established by Integra, plus one-time amenity fees and other minor fee income. As noted by the Developer, however, the Integra study suggests view premiums and height premiums could yield additional rent of \$0.28 per square foot and net operating income of approximately \$340,000 per year.

Developer Pro Forma

SBFCo's review of the Developer's pro forma yielded the following key observations regarding costs and revenues:

- **Construction Costs.** The Developer's pro forma carries \$43.4 million in construction costs, which are tied to a KBS estimate that the Developer has provided. Based on HUD requirements, it is *SBFCo's* understanding that KBS will need to provide a Guaranteed Maximum Price (GMP) contract for the construction prior to finalization of the 221(d)(4) guarantee. Concord reviewed construction cost estimates provided by KBS in light of the schematic-level design information available at this stage in the proposed project. Concord found that the KBS estimates were reasonable, and that current construction market conditions are allowing for favorable pricing from contractors. Concord's estimate carried a 3% design contingency based on the schematic level of design, which was either not reflected in the KBS estimate, or was blended into other line items. This recommendation is in line with a 3% contingency being carried at the Developer level in the Project budget to address such issues as cost increases during design refinement prior to the finalization of the GMP contract. Also, the HUD-required Working Capital Reserve of \$1 million can provide additional protection against cost overruns. A summary of Concord Group's review is contained in the Appendix to this report.
- **Soft Costs.** Soft costs, including architecture, engineering, and HUD-required reserves comprise approximately 20% of Total Development Costs, excluding land and developer fee. This percentage is higher than the 17% *SBFCo* has observed on average for soft costs in urban mixed-use redevelopment projects. However, this discrepancy appears to be primarily attributable to two factors:
 - The inclusion of a sizeable reserve for the first operating year of the project, in which the Developer anticipates less than 50% average occupancy as the project leases up. Therefore, a \$2.1 million reserve is included to cover the anticipated difference between Net Operating Income and debt service in that first year
 - Inclusion of additional financing costs such as interest paid by the Developer on a predevelopment loan and a capitalized reserve to pay the City Guarantee fees during the construction and initial operating period.
- **Developer Fee.** Developer Fees are limited to \$2.4 million, or 4.0% of total Project costs—in line with typical ranges for projects of this type. Per the proposed terms of City assistance, the Developer has the option to defer up to 100% of these fees and subordinate them to the Senior and Subordinate loans. Any such deferrals would be counted as Developer Equity for the purposes of meeting the City's minimum total Developer Equity requirement of \$5.0 million (see "Developer Equity" below). If deferred, the fees would be paid from net cash flow of the project after completion, as opposed to funded during construction from a source in the development budget.
- **Lease Revenues.** The projected revenue stream for the Bookends project is derived from the rent schedules for apartment units, parking spaces, and retail space. Once the project

reaches stabilization in 2014, the annual gross income is projected at approximately \$6 million from apartments, \$475,000 from rentable apartment parking spaces, and \$63,000 from the retail space. Apartment rents are projected to be above the current high end of the observed spectrum in Downtown Milwaukee at approximately \$2.09 per square foot at stabilization.

- **Operating Expenses.** The Developer intends to lease the retail space on a net basis, with pass-throughs of real estate taxes, common-area maintenance and other typical expenses to the tenants. The Developer also plans to charge apartment tenants for water and sewer usage, offsetting a portion of those utility expenses. Operating expenses for the apartment component of the project are projected at 28% of rental revenues, which is in the low range for newly constructed apartment projects based on reviews of benchmark sources such as Institute of Real Estate Management (IREM) surveys and pro formas for other rental apartment projects. The Developer has indicated that the operating expense projections are primarily based on actual experience with operations of the Jefferson Block project in the Third Ward.

Financing Structure

The proposed financing for the Project includes four key funding components:

- **HUD 221(d)4 Debt.** The primary financing for the Project will be a HUD 221(d)4-enhanced senior loan (“Senior Loan”) of approximately \$51.75 million, funded by an investor to be determined (currently anticipated to be the AFL-CIO) and serviced by Love Funding. The term of this loan will be the construction period plus 480 months of amortization. Love Funding is seeking a waiver on certain HUD cost limitations to reach a loan size of \$51.75 million, but indicates that this accommodation is likely to be granted. Grant of this waiver appears to be an important component of the funding structure for the Project—without this, the maximum Senior Loan amount would likely be about \$45.1 million.

Payments will be interest-only during the construction period, funded from a capitalized interest reserve. After completion, level monthly debt service payments commence such that the loan would be fully amortized over 480 months. These payments also include a mortgage insurance charge equal to 45 basis points on the principal amount of the loan. Interest is fixed for the entire 40+ year period, and is anticipated to be based on a spread over the yield on 10-year Treasuries at the time the rate is locked. For the purposes of pro forma analysis, the Developer and *SBFCo* used a 6.25% assumed interest rate—somewhat higher than the rate would be if the rate was locked today.

- **Developer Equity.** The terms of the City’s proposed assistance require the Developer’s total equity contribution to the Project to be at least \$5.0 million, of which at least \$2.6 million must be a cash contribution. For the purposes of evaluating equity returns, *SBFCo* assumed that the Developer Equity component would be comprised of:
 - Cash equity that will be funded at the Project financial closing (\$2.6 million)

- 100% deferral of the \$2.4 million Developer Fee until after completion, when it would be paid from cash flow from the property, rather than loan proceeds

Per the proposed terms of the transaction, the Developer has flexibility to substitute additional cash equity contributions for fee deferrals.

- **City Guarantee/Subordinate Loan.** The City would provide a City Guarantee in the amount of up to \$3.45 million, which would be used to secure a Subordinate Loan to the project. While the Developer has not provided a statement of proposed terms from a Subordinate Lender, the terms carried in the City’s proposed assistance package are reflective of the Developer’s discussions with multiple prospective funders. This Subordinate Loan is anticipated at a 9% interest rate, and would be sourced by a private provider (anticipated to be Emerald Isle Investment Partners). This Loan would not be secured by the Project property, due to restrictions typically imposed by HUD on second mortgages. Instead, if the Developer defaulted on debt service payments to the Subordinate Lender, the City would pay out the full amount of the City Guarantee (restricted to the original principal amount of the Guarantee) and assume ownership of the loan itself. Payments on the Subordinate Loan would be interest-only with a full “balloon” repayment at the end of the loan term. The proposed terms of the City Guarantee and Subordinate Loan are similar, at approximately 7 years—the construction period plus five operating years. However, per the proposed terms of the City Guarantee, the Guarantee would expire prior to the Subordinate Loan, thus protecting the City from refinance risk.

The proposed deal terms call for the Developer to in turn provide the City with security for its Guarantee. Specifically, the Developer would provide the City with a senior and exclusive lien on satisfactory collateral separate from the Project, as well as personal guarantees from the key principals of the Developer entity. To the extent allowable by HUD, the City would also be granted a second mortgage on the Project property. The City Guarantee is proposed to carry a 2% origination fee to be paid to the City at closing, and it would also carry an annual maintenance fee to be paid to the City on a subordinate basis to debt service on the Senior and Subordinate Loans. This fee would be 2% per year during the construction period and first operating year, and 4% per year during each additional year in which the guarantee remains in place.

Projected Developer Returns

In order to evaluate the need for assistance in the form of a City Guarantee, *SBFCo* calculated:

- **Equity Returns** expressed as an annual yield on investment and an overall internal rate of return (IRR) with the proposed level and structure of assistance. This calculation is based on the developer’s estimated equity contribution (described in “Developer Equity” above), annual net cash flow after expenses and debt service, and the income from an assumed hypothetical sale of the property in Year 11.

- **Returns on Cost** in terms of annual yield on project cost and overall unleveraged IRR. This calculation is based on a comparison between annual project income before debt service and total project cost.

Tables 1 through 3 on the following pages show the Sources and Uses of Funds, projected operating revenues and expenses, and the resulting projected cash flows and returns.

RETURNS ON EQUITY

SBFCo's return calculation yields a projected leveraged IRR on equity of about 23%. In the first stabilized year (Year 3), cash return on equity is projected at 12.4%. This return is at the higher end of the range observed at the pro forma stage for speculative real estate development projects.

RETURNS ON COST

SBFCo also projected IRR on total project cost (or “unleveraged IRR”) based on the initial unleveraged total project cost less projected project income before debt service. This calculation yielded an unleveraged IRR projection of 10.0%. *SBFCo* benchmarked these returns to national data on apartment projects from PriceWaterhouseCoopers/Korpacz Investor Survey for the Fourth Quarter of 2008. The Korpacz survey indicates a market average for multi-family apartments of about 8.3% and an observed market range of 6% to 10.5%. Because this index is primarily composed of purchases of existing cash-flowing assets, as opposed to proposed development projects, it is appropriate that the Bookends project would have a somewhat higher projected return on cost. Annual yield on cost in the first stabilized year is projected at 8.1%-within a typical range.

City of Milwaukee
Bookends Loan Analysis

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Table 1: Sources and Uses of Funds

		TOTAL	Incurred to Date	To be Incurred	% of Cost
USES					
Land					
Land Acquisition		\$ 2,000,000	\$ 2,000,000		
Predevelopment Carry Costs		\$ 10,453	\$ 10,453		
Total Land		\$ 2,010,453	\$ 2,010,453	\$ -	
Hard Costs					
Construction GMP from KBS		\$ 43,364,440		\$ 43,364,440	
Design Contingency	3%	\$ 1,300,933		\$ 1,300,933	
Total Hard Costs		\$ 44,665,373	\$ -	\$ 44,665,373	
Soft Costs					
Market Studies		\$ 59,540	\$ 59,540	\$ -	
City Underwriting Costs		\$ 58,000	\$ 58,000	\$ -	
Architecture and Engineering		\$ 1,070,000	\$ 520,000	\$ 550,000	
Predevelopment Engineering		\$ 66,045	\$ 66,045	\$ -	
Predevelopment Legal		\$ 10,282	\$ 10,282	\$ -	
Legal		\$ 50,000		\$ 50,000	
Survey		\$ 6,969	\$ 6,969	\$ -	
Insurance		\$ 75,000		\$ 75,000	
Accounting		\$ 81,286	\$ 1,286	\$ 80,000	
Job Representative		\$ 250,000		\$ 250,000	
Construction Interest Reserve- Senior Loan	60% avg drawn	\$ 3,072,656		\$ 3,072,656	
Real Estate Taxes- Predevelopment		\$ 36,506	\$ 36,506	\$ -	
Taxes During Construction		\$ 450,000		\$ 450,000	
EBE Consultant		\$ 75,000		\$ 75,000	
Marketing/Model Costs		\$ 350,000		\$ 350,000	
FF&E		\$ 42,500	\$ -	\$ 42,500	
Retail TI Allowance	\$50 psf	\$ 150,000		\$ 150,000	
Love Funding- Non-Refundable Deposit		\$ 36,500	\$ 36,500	\$ -	
Love Funding Brokerage Fee	0.75% Principal	\$ 388,125		\$ 388,125	
Subordinate Loan Brokerage Fee	1.50% Principal	\$ 51,731		\$ 51,731	
HUD Cost Certification Audit Fee		\$ 25,000		\$ 25,000	
HUD Market Study		\$ 10,000		\$ 10,000	
HUD Title & Recording		\$ 25,000		\$ 25,000	
HUD Legal Fee		\$ 40,000		\$ 40,000	
HUD Borrower's Organization Fee		\$ 64,700		\$ 64,700	
HUD GNMA Placement Fee		\$ 10,700		\$ 10,700	
HUD Insurance		\$ 21,000		\$ 21,000	
HUD Mortgage Insurance Premium Reserve	0.9% of HUD Loan	\$ 465,750		\$ 465,750	
HUD Application Fee	0.3% of HUD Loan	\$ 155,250		\$ 155,250	
HUD Inspection Fee (.5%)	0.5% of HUD Loan	\$ 258,750		\$ 258,750	
Working Capital Escrow	2.0% of HUD Loan	\$ 1,035,000		\$ 1,035,000	
Initial Operating Deficit Reserve (HUD Requirement)		\$ 2,115,733		\$ 2,115,733	
City Guarantee/LC Fee	2% of Guarantee	\$ 68,975		\$ 68,975	
Capitalized Guarantee LC Fees	2% 3 years	\$ 206,925		\$ 206,925	
Predevelopment Interest		\$ 240,000		\$ 240,000	
Total Soft Costs		\$ 11,122,923	\$ 795,128	\$ 10,327,796	
Developer Fees and Overhead					
Developer Fee		\$ 2,408,281	\$ -	\$ 2,408,281	4.0%
Total Developer Fees and Overhead		\$ 2,408,281	\$ -	\$ 2,408,281	
TOTAL DEVELOPMENT COSTS		\$ 60,207,031	\$ 2,805,581	\$ 57,401,450	
SOURCES (after closing of HUD Loan)					
Developer Cash Equity		\$ 2,600,000	\$ 2,600,000	\$ -	4.3%
Deferred Developer Fee	100%	\$ 2,408,281		\$ 2,408,281	4.0%
Subordinate, Un-Secured City-Guaranteed Loan		\$ 3,448,750		\$ 3,448,750	5.7%
Love Funding/HUD Senior Loan		\$ 51,750,000	\$ 205,581	\$ 51,544,419	86.0%
TOTAL SOURCES		\$ 60,207,031	\$ 2,805,581	\$ 57,401,450	

Source: Bookends North, LLC and S. B. Friedman & Company

City of Milwaukee
Bookends Loan Analysis

Table 2: Operating Income Calculation

	GLA	Units/Spaces	Annual Rent per		Total Annual Rent
			Monthly Rent per Unit/Space/Sq. Ft.	Unit/Space/Sq. Ft.	
Apartments	237,972	224	\$ 2,222.97	\$ 26,675.63	\$ 5,975,340
Parking	N/A	292	\$ 135.00	\$ 1,620.00	\$ 473,040
Retail	3,000	N/A	\$ 1.83	\$ 22.00	\$ 66,000
TOTAL					\$ 6,514,380

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		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
<i>Revenue Growth</i>			2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
<i>Expense Growth</i>			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<i>Occupancy:</i>												
<i>Apartments</i>		47%	91%	95%	95%	95%	95%	95%	95%	95%	95%	95%
<i>Parking</i>		47%	91%	95%	95%	95%	95%	95%	95%	95%	95%	95%
<i>Retail</i>		90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Rental Revenue												
Apartments	\$ 2,222.97	\$ 2,800,941	\$ 5,572,291	\$ 5,993,077	\$ 6,157,887	\$ 6,327,229	\$ 6,501,228	\$ 6,680,012	\$ 6,863,712	\$ 7,052,464	\$ 7,246,407	\$ 7,445,683
Water/Sewer Fee	\$ 0.13	\$ 14,501	\$ 28,078	\$ 30,198	\$ 31,028	\$ 31,881	\$ 32,758	\$ 33,659	\$ 34,585	\$ 35,536	\$ 36,513	\$ 37,517
1-Time Amenity Fee (45% ann turnover)	\$ 200.00	\$ 10,412	\$ 20,160	\$ 21,682	\$ 22,279	\$ 22,891	\$ 23,521	\$ 24,168	\$ 24,832	\$ 25,515	\$ 26,217	\$ 26,938
Other Misc Income		\$ 19,000	\$ 100,000	\$ 102,750	\$ 105,576	\$ 108,479	\$ 111,462	\$ 114,527	\$ 117,677	\$ 120,913	\$ 124,238	\$ 127,655
Parking	\$ 135.00	\$ 221,738	\$ 441,133	\$ 474,444	\$ 487,491	\$ 500,897	\$ 514,672	\$ 528,826	\$ 543,368	\$ 558,311	\$ 573,664	\$ 589,440
Retail	\$ 1.83	\$ 59,400	\$ 61,034	\$ 62,712	\$ 64,436	\$ 66,209	\$ 68,029	\$ 69,900	\$ 71,822	\$ 73,797	\$ 75,827	\$ 77,912
Total Rental Revenue		\$ 3,125,992	\$ 6,222,695	\$ 6,684,864	\$ 6,868,697	\$ 7,057,587	\$ 7,251,670	\$ 7,451,091	\$ 7,655,996	\$ 7,866,536	\$ 8,082,866	\$ 8,305,145
Operating Expenses												
Apartments	\$ -	\$ (679,766)	\$ (913,948)	\$ (975,789)	\$ (995,305)	\$ (1,015,211)	\$ (1,035,515)	\$ (1,056,225)	\$ (1,077,350)	\$ (1,098,897)	\$ (1,120,875)	\$ (1,143,292)
Parking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Expenses												
Apartments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses		\$ (679,766)	\$ (913,948)	\$ (975,789)	\$ (995,305)	\$ (1,015,211)	\$ (1,035,515)	\$ (1,056,225)	\$ (1,077,350)	\$ (1,098,897)	\$ (1,120,875)	\$ (1,143,292)
Annual Real Estate Taxes												
Apartments	\$ 3,348.21	\$ (356,250)	\$ (726,750)	\$ (741,285)	\$ (756,111)	\$ (771,233)	\$ (786,658)	\$ (802,391)	\$ (818,439)	\$ (834,807)	\$ (851,503)	\$ (868,534)
Total Annual Real Estate Taxes		\$ (356,250)	\$ (726,750)	\$ (741,285)	\$ (756,111)	\$ (771,233)	\$ (786,658)	\$ (802,391)	\$ (818,439)	\$ (834,807)	\$ (851,503)	\$ (868,534)
Net Operating Income (NOI)		\$ 2,089,976	\$ 4,581,997	\$ 4,967,790	\$ 5,117,282	\$ 5,271,143	\$ 5,429,498	\$ 5,592,475	\$ 5,760,208	\$ 5,932,832	\$ 6,110,488	\$ 6,293,319
Less Reserves	\$ 350.00	\$ (78,400)	\$ (79,968)	\$ (81,567)	\$ (83,199)	\$ (84,863)	\$ (86,560)	\$ (88,291)	\$ (90,057)	\$ (91,858)	\$ (93,695)	\$ (95,569)
Cash Flow After Reserves		\$ 2,011,576	\$ 4,502,029	\$ 4,886,222	\$ 5,034,083	\$ 5,186,280	\$ 5,342,938	\$ 5,504,184	\$ 5,670,151	\$ 5,840,974	\$ 6,016,792	\$ 6,197,750

Source: Bookends North, LLC and S. B. Friedman & Company

City of Milwaukee

Bookends Loan Analysis

Table 3: Cash Flow and Returns Analysis

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	Year 0 2009	Const Yr 1 2010	Const Yr 2 2011	Year 1 2012	Year 2 2013	Year 3 2014	Year 4 2015	Year 5 2016	Year 6 2017	Year 7 2018	Year 8 2019	Year 9 2020	Year 10 2021	Total
SOURCES														
NOI (less Reserves)				\$ 2,011,576	\$ 4,502,029	\$ 4,886,222	\$ 5,034,083	\$ 5,186,280	\$ 5,342,938	\$ 5,504,184	\$ 5,670,151	\$ 5,840,974	\$ 6,016,792	\$ 49,995,229
Payout of Operating Shortfall Reserve				\$ 2,115,733										\$ 2,115,733
Reversion													\$ 80,157,562	\$ 80,157,562
TOTAL			\$ -	\$ 4,127,309	\$ 4,502,029	\$ 4,886,222	\$ 5,034,083	\$ 5,186,280	\$ 5,342,938	\$ 5,504,184	\$ 5,670,151	\$ 5,840,974	\$ 86,174,354	\$ 132,268,524
USES														
Debt Service- Senior Loan	\$ 51,750,000			\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 3,758,538	\$ 37,585,378
Mortgage Insurance Premium	0.45%			\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875	\$ 232,875
Interest Payment Excl MIP	6.25%			\$ 3,234,375	\$ 3,232,858	\$ 3,231,333	\$ 3,229,800	\$ 3,228,259	\$ 3,226,710	\$ 3,225,153	\$ 3,223,588	\$ 3,222,014	\$ 3,220,433	\$ 32,268,524
Principal Payment	40			\$ 291,288	\$ 292,805	\$ 294,330	\$ 295,863	\$ 297,404	\$ 298,933	\$ 300,510	\$ 302,075	\$ 303,648	\$ 305,230	\$ 3,052,330
Prepayment													\$ 48,767,895	\$ 48,767,895
Cash Available to Repay Subordinate, Unsecured Loan		\$ -	\$ -	\$ 368,771	\$ 743,491	\$ 1,127,685	\$ 1,275,545	\$ 1,427,742	\$ 1,584,400	\$ 1,745,646	\$ 1,911,613	\$ 2,082,436	\$ 33,647,921	\$ 33,647,921
Interest Due	\$ 3,448,750	\$ 310,387	\$ 338,322	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 4,026,036
Interest Payment	9.00%	\$ -	\$ -	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 368,771	\$ 3,687,771
Principal Payment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Accrual		\$ 310,387	\$ 338,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Outstanding Balance at Year End		\$ 3,759,137	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ 4,097,460	\$ -	\$ -
Cash Available to Pay City Guarantee/LC Fee		\$ -	\$ -	\$ -	\$ 374,720	\$ 758,913	\$ 906,774	\$ 1,058,971	\$ 1,215,629	\$ 1,376,875	\$ 1,542,842	\$ 1,713,665	\$ 29,181,690	\$ 29,181,690
Guarantee Fee Due	4%	\$ 3,448,750			\$ 137,950	\$ 137,950	\$ 137,950	\$ 137,950	\$ 137,950	\$ -	\$ -	\$ -	\$ -	\$ -
Guarantee Fee Paid					\$ 137,950	\$ 137,950	\$ 137,950	\$ 137,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Balance					\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distributable Cash		\$ -	\$ -	\$ -	\$ 236,770	\$ 620,963	\$ 768,824	\$ 921,021	\$ 1,215,629	\$ 1,376,875	\$ 1,542,842	\$ 1,713,665	\$ 29,181,690	\$ 37,578,278
TOTAL		\$ -	\$ -	\$ -	\$ 236,770	\$ 620,963	\$ 768,824	\$ 921,021	\$ 1,215,629	\$ 1,376,875	\$ 1,542,842	\$ 1,713,665	\$ 29,181,690	\$ 37,578,278
Annual Debt Coverage (Senior Loan)				0.54	1.20	1.30	1.34	1.38	1.42	1.46	1.51	1.55	1.60	
Annual Debt Coverage (Aggregate)				0.49	1.06	1.15	1.18	1.22						
Leveraged Cash Flow														
Equity Contributions	FUNDED w/	\$ (3,804,141)	\$ (1,204,141)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,008,281)
Equity Distributions	PREDEV LOAN	\$ -	\$ -	\$ 236,770	\$ 620,963	\$ 768,824	\$ 921,021	\$ 1,215,629	\$ 1,376,875	\$ 1,542,842	\$ 1,713,665	\$ 29,181,690	\$ 29,181,690	\$ 37,578,278
TOTAL		\$ -	\$ (3,804,141)	\$ (1,204,141)	\$ -	\$ 236,770	\$ 620,963	\$ 768,824	\$ 921,021	\$ 1,215,629	\$ 1,376,875	\$ 1,542,842	\$ 1,713,665	\$ 29,181,690
Annual Cash-on-Cash Return				0.0%	4.7%	12.4%	15.4%	18.4%	24.3%	27.5%	30.8%	34.2%		
Leveraged IRR				23.4%										
Unleveraged Cash Flow														
NOI				\$ 2,011,576	\$ 4,502,029	\$ 4,886,222	\$ 5,034,083	\$ 5,186,280	\$ 5,342,938	\$ 5,504,184	\$ 5,670,151	\$ 5,840,974	\$ 6,016,792	\$ 49,995,229
Reversion Proceeds				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,157,562
Total Project Costs				\$ (60,207,031)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (60,207,031)
TOTAL				\$ (60,207,031)	\$ 2,011,576	\$ 4,502,029	\$ 4,886,222	\$ 5,034,083	\$ 5,186,280	\$ 5,342,938	\$ 5,504,184	\$ 5,670,151	\$ 5,840,974	\$ 86,174,354
Annual Yield on Cost				3.3%	7.5%	8.1%	8.4%	8.6%	8.9%	9.1%	9.4%	9.7%	10.0%	
Unleveraged IRR				10.0%										

Source: Bookends North, LLC and S. B. Friedman & Company

Reversion Calculations	
11th Year NOI	\$ 6,197,750
Terminal Cap Rate	7.5%
Terminal Value	\$ 82,636,661
Cost of Sale @	3.0% \$ (2,479,100)
Net Reversion Proceeds	\$ 80,157,562

3. Incremental Property Tax Revenues

The City of Milwaukee proposes to create a TID to support the City Guarantee for the Bookends Project. Unlike typical TIDs in Milwaukee, this TID would be a contingent mechanism to provide protection to the City's general fund if the guarantee needs to be funded, rather than a vehicle to allow for up-front borrowing to support the Project. The proposed mechanics for the TID are as follows:

- In years where the City Guarantee has not been called upon, the City intends to distribute the property tax revenues from the Project to the five taxing jurisdictions whose levies affect the Project site.
- If the Guarantee is never called upon, the City would not issue TID debt, and instead would dissolve the District at the time the Guarantee expires.
- If the Guarantee is called, the City would have the option to issue TID-backed debt, whether in the form of full faith and credit-backed bonds or revenue bonds, to fund the City's obligation.

In order to evaluate the revenue source for the City Guarantee and the time frame of repayment, *SBFCo* projected future incremental property tax revenues to be generated by the proposed Bookends project. These projected revenues were then used to estimate the time frame for amortization of the associated TID-supported funding of the City Guarantee.

TID Projection Assumptions and Methodology

Table 4 on the following page shows *SBFCo*'s projections of incremental property taxes for the proposed TID. These projections indicate total undiscounted tax collections of about **\$19.7 million** between 2009 and 2036.

The key assumptions and methods used to develop these projections are described below.

- **Sources of TID Revenue.** The proposed TID would include the three taxkeys that make up the development site of the Project. The proposed Bookends project will generate tax increment through its 224 apartments, 3,000 square feet of retail, and associated parking.
- **Timing of Assessments.** The Developer does not expect to begin lease-up until the Project is completed in 2012. This timeframe means that the Project is expected to be partially assessed in 2012 and 2013. For the purposes of calculating TID revenues, *SBFCo* used conservative phasing/timing assumptions—specifically that the project's assessed value each year would reflect the occupancy level from the prior year. Under this framework, the first year of new assessed value would be 2013, following the partial occupancy of the Project in 2012. Full stabilized value would be achieved in 2015, following stabilization of the property in 2014.

**City of Milwaukee
Proposed Bookends Project
Table 4: TID Revenue Projections**

DRAFT

TID Year	Assmt Year	Inflation Factor	Frozen Base AV	Inflated Value	New Value Additions			Cumulative Additions	Incremental AV	Property Tax Rate	Annual Incremental Tax Revenue
					Apartments	Retail	Total				
1	2009	1.00	\$ 1,206,734	\$ 1,206,734	\$ -	\$ -	\$ -	\$ -	\$ -	2.51%	
2	2010	1.02	\$ 1,206,734	\$ 1,224,835	\$ -	\$ -	\$ -	\$ -	\$ 18,101	2.46%	
3	2011	1.03	\$ 1,206,734	\$ 1,243,207	\$ -	\$ -	\$ -	\$ -	\$ 36,474	2.42%	\$ 446
4	2012	1.05	\$ 1,206,734	\$ 1,261,855	\$ -	\$ -	\$ -	\$ -	\$ 55,122	2.39%	\$ 884
5	2013	1.06	\$ 1,206,734	\$ 1,280,783	\$ 17,361,361	\$ 398,011	\$ 17,759,372	\$ 17,759,372	\$ 17,833,422	2.35%	\$ 1,315
6	2014	1.08	\$ 1,206,734	\$ 1,299,995	\$ 16,496,987	\$ -	\$ 16,496,987	\$ 34,522,749	\$ 34,616,011	2.31%	\$ 418,495
7	2015	1.09	\$ 1,206,734	\$ 1,319,495	\$ 1,522,222	\$ -	\$ 1,522,222	\$ 36,562,813	\$ 36,675,574	2.27%	\$ 799,181
8	2016	1.11	\$ 1,206,734	\$ 1,339,287	\$ -	\$ -	\$ -	\$ 37,111,255	\$ 37,243,808	2.23%	\$ 833,023
9	2017	1.13	\$ 1,206,734	\$ 1,359,376	\$ -	\$ -	\$ -	\$ 37,667,924	\$ 37,820,566	2.20%	\$ 832,236
10	2018	1.14	\$ 1,206,734	\$ 1,379,767	\$ -	\$ -	\$ -	\$ 38,232,942	\$ 38,405,976	2.16%	\$ 831,443
11	2019	1.16	\$ 1,206,734	\$ 1,400,463	\$ -	\$ -	\$ -	\$ 38,806,437	\$ 39,000,167	2.13%	\$ 830,645
12	2020	1.18	\$ 1,206,734	\$ 1,421,470	\$ -	\$ -	\$ -	\$ 39,388,533	\$ 39,603,270	2.09%	\$ 829,841
13	2021	1.20	\$ 1,206,734	\$ 1,442,793	\$ -	\$ -	\$ -	\$ 39,979,361	\$ 40,215,420	2.06%	\$ 829,033
14	2022	1.21	\$ 1,206,734	\$ 1,464,434	\$ -	\$ -	\$ -	\$ 40,579,052	\$ 40,836,752	2.03%	\$ 828,219
15	2023	1.23	\$ 1,206,734	\$ 1,486,401	\$ -	\$ -	\$ -	\$ 41,187,737	\$ 41,467,405	2.00%	\$ 827,401
16	2024	1.25	\$ 1,206,734	\$ 1,508,697	\$ -	\$ -	\$ -	\$ 41,805,553	\$ 42,107,517	2.00%	\$ 829,348
17	2025	1.27	\$ 1,206,734	\$ 1,531,327	\$ -	\$ -	\$ -	\$ 42,432,637	\$ 42,757,231	2.00%	\$ 842,150
18	2026	1.29	\$ 1,206,734	\$ 1,554,297	\$ -	\$ -	\$ -	\$ 43,069,126	\$ 43,416,690	2.00%	\$ 855,145
19	2027	1.31	\$ 1,206,734	\$ 1,577,612	\$ -	\$ -	\$ -	\$ 43,715,163	\$ 44,086,041	2.00%	\$ 868,334
20	2028	1.33	\$ 1,206,734	\$ 1,601,276	\$ -	\$ -	\$ -	\$ 44,370,891	\$ 44,765,433	2.00%	\$ 881,721
21	2029	1.35	\$ 1,206,734	\$ 1,625,295	\$ -	\$ -	\$ -	\$ 45,036,454	\$ 45,455,015	2.00%	\$ 895,309
22	2030	1.37	\$ 1,206,734	\$ 1,649,674	\$ -	\$ -	\$ -	\$ 45,712,001	\$ 46,154,942	2.00%	\$ 909,100
23	2031	1.39	\$ 1,206,734	\$ 1,674,420	\$ -	\$ -	\$ -	\$ 46,397,681	\$ 46,865,367	2.00%	\$ 923,099
24	2032	1.41	\$ 1,206,734	\$ 1,699,536	\$ -	\$ -	\$ -	\$ 47,093,646	\$ 47,586,448	2.00%	\$ 937,307
25	2033	1.43	\$ 1,206,734	\$ 1,725,029	\$ -	\$ -	\$ -	\$ 47,800,051	\$ 48,318,346	2.00%	\$ 951,729
26	2034	1.45	\$ 1,206,734	\$ 1,750,904	\$ -	\$ -	\$ -	\$ 48,517,051	\$ 49,061,222	2.00%	\$ 966,367
27	2035	1.47	\$ 1,206,734	\$ 1,777,168	\$ -	\$ -	\$ -	\$ 49,244,807	\$ 49,815,242	2.00%	\$ 981,224
	2036	Collections for TID Year 27									\$ 996,305
Total Proceeds, 2009-2036 (Not Discounted)											\$ 19,699,300

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.

This conservative methodology is likely to represent a slightly slower phase-in of value than will actually occur, and assumes a substantially slower phase-in of property taxes than that carried in the financial pro forma.

- **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 2009 tax rate equal to the Assessor's estimate of 2.505% (\$25.05 per \$1,000 of value) and a subsequent annual decline in rate of 1.62%, the compound annual rate of decline for the past 10 years. This decline is assumed to continue through 2023, beyond which point the rate is assumed to remain level at 2%.
- **Base Value.** Because the TID is likely to be created late in the calendar year, it is our understanding that the 2010 assessed value of the property would be set as the base value. *SBFCo* therefore assumed a base value of 101.5% of 2009 value, or about \$1.2 million.
- **Valuation Approach.** The following assumptions and methodologies were used to project future property valuations for the purposes of estimating TID revenue:
 - Apartment Valuation: *SBFCo* based assumptions on valuation methodology and levels on conversations recently held with the City Assessor's Office regarding the proposed Moderne project in the Park East TID. Based on the Assessor's comments, *SBFCo* believes a similar approach would be used for valuation on the Bookends project. The Assessor's office indicated it would likely take an income approach to valuation of the property, but might base its value on prevailing area rents, as opposed to specific operating results from the property. Specifically, the Assessor suggested rents of \$1.65 per square foot might be used. This income would then be translated into building value using assumptions such as operating expenses (excluding property tax) equal to 35% of revenues, a 5% vacancy rate, and a cap rate of between 6% and 7%. *SBFCo* assumed a 6.5% cap rate, and added 2.3% to reflect the approximate average property tax rate the Project might experience over the bulk of the TID projection period to result in a "tax-loaded cap rate." In turn, these calculations yield an anticipated building valuation of approximately \$139 per square foot. Assessor data on building square footages for other Downtown apartment projects is limited, so *SBFCo* reviewed data on valuation per unit to benchmark the above assumption. This value falls toward the upper end of observed ranges, but below the highest observed values of \$165/unit for the Franklin at East Pointe. Given the Bookends project's higher pro forma rents of \$2.09 per square foot per month as compared to the Franklin's current values in the \$1.50 range, the \$139/sf Bookends valuation assumption appears reasonable.
 - Retail Valuation: Consistent with assumptions used in prior TID projections for Downtown Milwaukee projects, *SBFCo* assumed a value of \$125 per square foot for retail space.

- **Parking Structure Valuation:** Although the parking portion of the Bookends project will be leased separately from the apartments and would itself generate additional net operating income, *SBFCo* did not attribute additional TID value to this component. This reflects the fact that available apartment tax comparables frequently do not have separate taxkeys from their associated parking. Therefore, the stated apartment valuation above includes any additional value that may be attributed to parking.
- **Property Value Growth.** *SBFCo*'s projections assume 1.5% annual growth in real property assessments for all properties included in the TID projection.

Projected Amortization of TID Debt

SBFCo evaluated the time frame over which the total City Guarantee, if funded, could be amortized using the available sources of TID revenue. This analysis is presented in **Table 5**. This analysis presents the scenario under which the Guarantee would cause the greatest stress on the TID—specifically:

- Guarantee is called in its final year (early 2017) and City bonds are issued in 2017
- All TID revenues collected prior to 2017 are distributed to the taxing bodies, rather than being accrued as a TID fund balance for the payment of the City obligation

METHODOLOGY

These projections replicate the issuance of one or more bonds to support the City Guarantee and are based on the following key assumptions:

- **Bond Interest Rates.** *SBFCo* assumed an interest rate of 4.5% on the bonds, reflective of the City's approximate cost of funds frequently used for TID feasibility analysis.
- **Term, Target Debt Service, and Carry Costs.** Reflecting discussions with the Office of the City Comptroller, the projections assume two years of interest-only payments, followed by fifteen years of level principal and interest payments. The interest-only payments in the first two years of the financing are equal to the size of the assumed capitalized interest reserve, less available fund balances at the time of issuance.

For the fifteen level payment years following the interest-only period, a "TID Annual Debt Service Target" is defined. This amount is equal to the annual level-payment debt service on a 15-year amortization of the total bond issue. In each of the 15 amortization years, this Annual Debt Service Target is compared to the available TID revenue. Any shortfalls relative to this target are accrued and carry a 4% annual interest charge until they are repaid. Any surpluses versus the target are used to pay down the accumulated shortfalls.

City of Milwaukee
Proposed Bookends Project
Table 5: TID Amortization

DRAFT

Bonding	
Interest Rate on Bonds	4.50%
Cost of Funds (Local Government Investment Pool)	4.00%
Issuance Costs @	1.00%
Capitalized Interest Allowance @	10.00%
Assumed Level P&I Payments	15

Funding Structure

	Assumed Year	Amount	Plus Issuance Costs	Capitalized Interest	Total Issuance
Assumed Bonding	2017	\$ 3,448,750	\$ 34,487	\$ 387,026	\$ 3,870,264

TID Year	Calendar Year	Projected Incremental Property Taxes	New Debt Service				TID Payoff Analysis							
			TID-Backed Bonds Issued	TID Annual Debt Service Target Payments	Principal Payment	Interest Payment	Ending Principal Balance	Annual Surplus/ (Shortfall)	Distributions to Taxing Bodies	Cumulative Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance	TID Debt Retired	TID Could Repay Outstanding Princ.	
1	2009	\$ -	\$ -					\$ -	\$ -	\$ -	\$ -	\$ -		
2	2010	\$ -	\$ -					\$ -	\$ -	\$ -	\$ -	\$ -		
3	2011	\$ 446	\$ -					\$ 446	\$ 446	\$ -	\$ -	\$ -		
4	2012	\$ 884	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 884	\$ 884	\$ -	\$ -	\$ -		
5	2013	\$ 1,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,315	\$ 1,315	\$ -	\$ -	\$ -		
6	2014	\$ 418,495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 418,495	\$ 418,495	\$ -	\$ -	\$ -		
7	2015	\$ 799,181	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 799,181	\$ 799,181	\$ -	\$ -	\$ -		
8	2016	\$ 833,023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 833,023	\$ 833,023	\$ -	\$ -	\$ -		
9	2017	\$ 832,236	\$ 3,870,264	\$ -	\$ -	\$ -	\$ 3,870,264	\$ 832,236	\$ -	\$ 832,236	\$ 33,289			NO
10	2018	\$ 831,443	\$ -	\$ -	\$ -	\$ -	\$ 3,870,264	\$ 831,443	\$ -	\$ 1,696,968	\$ 67,879			NO
11	2019	\$ 830,645	\$ -	\$ -	\$ -	\$ -	\$ 3,870,264	\$ 830,645	\$ -	\$ 2,595,491	\$ 103,820			NO
12	2020	\$ 829,841	\$ -	\$ 360,375	\$ (186,213)	\$ (174,162)	\$ 3,684,050	\$ 469,466	\$ -	\$ 3,168,777	\$ 126,751	NO		NO
13	2021	\$ 829,033	\$ -	\$ 360,375	\$ (194,593)	\$ (165,782)	\$ 3,489,458	\$ 468,658	\$ -	\$ 3,764,186	\$ 150,567	NO		YES
14	2022	\$ 828,219	\$ -	\$ 360,375	\$ (203,349)	\$ (157,026)	\$ 3,286,108	\$ 467,844	\$ -	\$ 4,382,598	\$ 175,304	NO		YES
15	2023	\$ 827,401	\$ -	\$ 360,375	\$ (212,500)	\$ (147,875)	\$ 3,073,608	\$ 467,026	\$ -	\$ 5,024,928	\$ 200,997	NO		YES
16	2024	\$ 829,348	\$ -	\$ 360,375	\$ (222,063)	\$ (138,312)	\$ 2,851,546	\$ 468,973	\$ -	\$ 5,694,898	\$ 227,796	NO		YES
17	2025	\$ 842,150	\$ -	\$ 360,375	\$ (232,055)	\$ (128,320)	\$ 2,619,490	\$ 481,775	\$ -	\$ 6,404,469	\$ 256,179	NO		YES
18	2026	\$ 855,145	\$ -	\$ 360,375	\$ (242,498)	\$ (117,877)	\$ 2,376,992	\$ 494,770	\$ -	\$ 7,155,418	\$ 286,217	NO		YES
19	2027	\$ 868,334	\$ -	\$ 360,375	\$ (253,410)	\$ (106,965)	\$ 2,123,582	\$ 507,959	\$ -	\$ 7,949,593	\$ 317,984	NO		YES
20	2028	\$ 881,721	\$ -	\$ 360,375	\$ (264,814)	\$ (95,561)	\$ 1,858,768	\$ 521,346	\$ -	\$ 8,788,923	\$ 351,557	NO		YES
21	2029	\$ 895,309	\$ -	\$ 360,375	\$ (276,730)	\$ (83,645)	\$ 1,582,038	\$ 534,934	\$ -	\$ 9,675,413	\$ 387,017	NO		YES
22	2030	\$ 909,100	\$ -	\$ 360,375	\$ (289,183)	\$ (71,192)	\$ 1,292,855	\$ 548,725	\$ -	\$ 10,611,155	\$ 424,446	NO		YES
23	2031	\$ 923,099	\$ -	\$ 360,375	\$ (302,197)	\$ (58,178)	\$ 990,658	\$ 562,724	\$ -	\$ 11,598,325	\$ 463,933	NO		YES
24	2032	\$ 937,307	\$ -	\$ 360,375	\$ (315,795)	\$ (44,580)	\$ 674,863	\$ 576,932	\$ -	\$ 12,639,191	\$ 505,568	NO		YES
25	2033	\$ 951,729	\$ -	\$ 360,375	\$ (330,006)	\$ (30,369)	\$ 344,856	\$ 591,354	\$ -	\$ 13,736,112	\$ 549,444	NO		YES
26	2034	\$ 966,367	\$ -	\$ 360,375	\$ (344,856)	\$ (15,519)	\$ (0)	\$ 605,992	\$ -	\$ 14,891,549	\$ 595,662	NO		YES
27	2035	\$ 981,224	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ 981,224	\$ -	\$ 16,468,435	\$ 658,737	YES		YES
	2036	\$ 996,305	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ 996,305	\$ -	\$ 18,123,477	\$ 724,939	YES		YES
TOTALS		\$ 19,699,300	\$ 3,870,264	\$ 5,405,625	\$ (3,870,264)	\$ (1,535,361)		\$ 14,293,676	\$ 2,053,345		\$ 6,608,086			

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.

- **Issuance Costs.** *SBFCo* assumed an issuance cost of 1.00% for City bonds.

Based on these amortization assumptions and the underlying TID projection assumptions, *SBFCo* projects that the City Guarantee bonded amount would be amortized well within the life of the TID. If the City Guarantee were funded in 2017, the bonded amount could be amortized by 2021-the 13th year of the TID. It should also be noted that in this analysis, five years of property taxes are required to repay the City's bond issuance, while the balance are distributed to the five underlying taxing jurisdictions.

DRAFT

Appendix: Construction Cost Review Summary

DRAFT



The Concord Group

Construction Consultants

ESTIMATE REVIEW COMMENTS

FOR

THE BOOKENDS SCHEMATIC DESIGN ESTIMATE

Prepared For:
S. B. Friedman
221 North LaSalle Street
Suite 820
Chicago, IL 60601

Prepared By:
The Concord Group
161 North Clark Street
Suite 2050
Chicago, IL 60601

Date Prepared:
October 15, 2009

OVERVIEW

For the initial review we undertook the following:

- (1) Reviewed KBS's Schematic Design Estimate provided to us by S. B. Friedman & Company.
- (2) Reviewed the schematic design drawings and associated schematic design narrative to understand the scope of the project.
- (3) Performed take-off of some major project components, such as exterior envelope, structural concrete suspended slabs and interior finishes and major components of MEP systems. These quantities were then priced to reflect current market conditions and a comparative estimate was developed and compared with the KBS estimate. (See attached estimate and comparison)
- (4) Compared cost/SF and unit costs with pricing for recent projects of similar scope.

COMMENTS

In summary, the following are our comments and recommendations based on our initial review of the documents:

- (1) In general the contractor's estimated cost of \$43,364,442 (\$105/sqft) seems reasonable in comparison with our estimated cost of \$45,736,793 (\$111/sqft). It is likely the current market conditions are having a favorable impact on the major trades that will be utilized in a project of this nature. We are seeing similar competitive bidding for other comparable projects in Milwaukee. The contractor appears to have included all of the scope in their estimate, and we feel confident that the contractor can complete this project within the estimated total cost as long as the current bidding environment continues to stay competitive.
- (2) There appears to be a disparity between the architect's, contractor's and our gross floor area of the building. The contractor uses a GFA of 453,318. The architect uses a GFA of 394,965. Our GFA was calculated at 410,794. We feel that our GFA calculations are accurate, as we have both manually and digitally completed a take off on the drawings provided to us which includes the ground floor, parking levels 2-5, mechanical mezzanine and residential floors 6-19.

- (3) The contractor does not show on their breakdown a percentage cost for design contingency. We have included a design contingency of 3% totaling \$1,332,140, which we feel is an appropriate cost at this point in time. We are assuming that the contractor's estimate includes sufficient design contingency in the line item pricing.
- (4) We received two cost breakdowns from KBS. One is dated 9/23/09, which was a more general breakdown with costs for broad items within the divisions of labor. The other is dated 10/7/09 and is a more detailed breakdown of costs. Some of the divisions of labor do not add up with one another and it looks as if kitchen cabinetry was counted twice, once in Finish Carpentry (Division 6) and again in Equipment (Division 11). This appears to be the explanation as to why our cost for Equipment is much lower than that of KBS.
- (5) The overall cost for site construction appears to be low and should be verified.
- (6) The overall cost for finishes appears to be low and should be verified. Specifically, we feel that the contractor's cost for painting is low.
- (7) The overall cost for thermal and moisture protection appears to be high and should be verified. Specifically, the contractor has approximately 4,500 sq ft more metal panel cladding than we estimate.

RECOMMENDATIONS

- (1) Both the architect and the contractor should review and confirm the gross floor area measurement. This is important at this point in the design, as it is likely that some of the major systems are currently being priced on a gross floor area basis.
- (2) Request that design contingency be broken out as a separate line item, if it was included in the contractor's estimate.
- (3) Request a response to our comments (1) through (7) above. Where items are to be verified, a general review of pricing for accuracy and feasibility should be completed.
- (4) We would also suggest that the general contractor provide any detailed subcontractor pricing that they've received to date for this project, for review.



	Description	Quantity	Unit	Unit Cost	Subtotal	Total
02000	SITE CONSTRUCTION					
	Demolition:					
	Building & Site demolition allowance	1	LS	60,000	\$60,000	
	Subtotal					\$60,000
	Paving:					
	Curb & gutter	400	LF	20	\$8,000	
	Concrete entrance drives & curb cuts	2	EA	3,000	\$6,000	
	Concrete sidewalk, 5"	3,850	SF	5	\$19,250	
	Roadway paving patching at new curbs	1	LS	6,000	\$6,000	
	Subtotal					\$39,250
	Excavation:					
	Excavation and haul off for foundations	7,308	CY	34	\$248,472	
	Backfill with imported material	4,266	CY	32	\$136,512	
	Subtotal					\$384,984
	Special Foundations:					
	Earth retention	3,500	SF	35	\$122,500	
	Dewatering allowance	1	LS	2,500	\$2,500	
	Subtotal					\$125,000
	Site Development:					
	Landscaping allowance	1	LS	30,000	\$30,000	
	Subtotal					\$30,000
	Site Utilities:					
	Storm piping including connections, trenching, patching, etc.	1	LS	25,000	\$25,000	
	Catch basins	1	LS	15,000	\$15,000	
	Sanitary piping including connections, trenching, patching, etc.	1	LS	10,000	\$10,000	
	Water piping including connections, trenching, patching, etc.	1	LS	10,000	\$10,000	
	Subtotal					\$60,000
02000	TOTAL: SITE CONSTRUCTION					\$699,234
03000	CONCRETE					
	Structural Concrete:					
	Post-tensioned concrete slab, beams, and columns	410,794	SF	23	\$9,448,262	
	Concrete cast-in-place stairs at parking lots	1	EA	2,500	\$2,500	
	Concrete shear wall for elevator	13,930	SF	45	\$626,850	
	Concrete ramp at ground floor corridors	194	SF	25	\$4,850	
	Subtotal					\$10,082,462
	Standard Foundations:					
	Mat Foundation, 4'-0"	1,177	CY	400	\$470,800	
	Mat Foundation, 5'-6"	587	CY	410	\$240,670	
	Foundation wall, 12" thick w/ 2" insulation	159	CY	550	\$87,450	
	Concrete footings w/ bar reinforcing	1,119	CY	395	\$442,005	
	Slab-on-grade, 5" on compacted fill	22,475	SF	5.50	\$123,613	
	Subtotal					\$1,364,538
	Precast Concrete:					
	Pre-cast insulated concrete panels	29,110	SF	35	\$1,018,850	
	Colored precast band at building base	250	LF	125	\$31,250	
	Subtotal					\$1,050,100
03000	TOTAL: CONCRETE					\$12,497,100



	Description	Quantity	Unit	Unit Cost	Subtotal	Total
04000	MASONRY					
	Exterior Masonry:					
	Brick veneer	86,363	SF	25	\$2,159,075	
	Subtotal					\$2,159,075
	Interior Masonry:					
	Partitions, CMU	20,328	SF	14	\$284,592	
	Countertops - granite	3,808	LF	115	\$437,920	
	Bathroom countertop	280	EA	250	\$70,000	
	Bathroom countertop, double	28	EA	500	\$14,000	
	Subtotal					\$806,512
04000	TOTAL: MASONRY					\$2,965,587
05000	METALS					
	Structural Steel:					
	Miscellaneous structural steel lintels, angles, channels, etc.	410,794	SF	1.25	\$513,493	
	Subtotal					\$513,493
	Miscellaneous Metals:					
	Aluminum balcony railings w/ glass	5,586	LF	150	\$837,900	
	Steel bollards at overhead doors and parking areas	27	EA	725	\$19,575	
	Subtotal					\$857,475
	Stairs:					
	Metal Stairs with railings per 2 flights & 1 landing	19	EA	18,900	\$359,100	
	Paint stairs	19	EA	700	\$13,300	
	Ships ladder from 19th floor to roof	1	EA	1,500	\$1,500	
	Elevator pit ladders	3	EA	900	\$2,700	
	Subtotal					\$376,600
05000	TOTAL: METALS					\$1,747,568
06000	WOODS & PLASTICS					
	Rough Carpentry:					
	Miscellaneous wood blocking	410,794	SF	0.75	\$308,096	
	Subtotal					\$308,096
	Millwork:					
	Closet systems	182	EA	750	\$136,500	
	Miscellaneous trim, casings, etc	285,460	SF	0.50	\$142,730	
	Subtotal					\$279,230
	Fixed Cabinetry:					
	Condos:					
	Wall and base cabinets (in common area as well)	6,664	LF	100	\$666,400	
	Shelving & pole	3,024	LF	16	\$48,384	
	Bathroom vanities	280	EA	250	\$70,000	
	Bathroom vanities, double	28	EA	500	\$14,000	
	Subtotal					\$798,784
06000	TOTAL: WOODS & PLASTICS					\$1,386,110
07000	THERMAL & MOISTURE PROTECTION					
	Metal Panel:					
	Metal panel system w/ glass	7,569	SF	29	\$219,501	
	Metal panel cladding for canopy soffit and fascia	825	SF	15	\$12,375	
	Subtotal					\$231,876



Description	Quantity	Unit	Unit Cost	Subtotal	Total
Roofing:					
Roofing including pavers, penetrations, flashings, etc.	24,663	SF	18	\$443,934	
Subtotal					\$443,934
Caulking & Sealants:					
Air & water barrier at exterior wall	106,860	SF	2.50	\$267,150	
Miscellaneous caulking, sealants, firestopping, etc.	410,794	SF	0.20	\$82,159	
Subtotal					\$349,309
07000 TOTAL: THERMAL & MOISTURE PROTECTION					\$1,025,119
08000 DOORS & WINDOWS					
Exterior Windows					
Aluminum curtainwall	816	SF	150	\$122,400	
Aluminum windows	12,060	SF	63	\$759,780	
Aluminum storefront	1,760	SF	55	\$96,800	
Subtotal					\$978,980
Exterior Doors					
Aluminum doors (glazed) with frames and hardware:					
- Double	7	EA	6,000	\$42,000	
- Single	3	EA	3,000	\$9,000	
Balcony entry doors:					
- Double swinging, glass, one fixed door	196	EA	2,500	\$490,000	
- Single swinging, glass	28	EA	1,500	\$42,000	
Overhead Doors					
Card readers	2	EA	3,000	\$6,000	
	4	EA	1,000	\$4,000	
Subtotal					\$593,000
Interior Doors/Glazing					
Hollow metal doors w/ HM frames and hardware	32	EA	1,450	\$46,400	
Solid core wood doors w/ WD frames and hardware	37	EA	1,300	\$48,100	
Condo entrance door, frame & hardware	224	EA	950	\$212,800	
Interior door, frame & hardware	1,246	EA	1,000	\$1,246,000	
Cloest sliding bypass doors - apartments	294	EA	250	\$73,500	
Subtotal					\$1,626,800
08000 TOTAL: DOORS & WINDOWS					\$3,198,780
09000 FINISHES					
Gypsum Board:					
Furring for exterior walls, 6" metal stud w/ 5/8" gypboard and batt insulation	106,860	SF	6.65	\$710,619	
Partitions, corridor, 6" metal track w/ 3-5/8" metal studs, staggered w/ 6" batt insulation and (1) layer of 5/8" gypboard each side	66,640	SF	6.70	\$446,488	
Partitions, demising, (2) 3-5/8" metal stud wall w/ batt insulation and 1 layer of 5/8" gypboard each side and between	67,200	SF	9.95	\$668,640	
Partitions, typical, 3-5/8" metal stud wall w/ 5/8" gypboard	349,282	SF	4.55	\$1,589,233	
Gypboard ceiling	293,930	SF	3.25	\$955,273	
Subtotal					\$4,370,253



Description	Quantity	Unit	Unit Cost	Subtotal	Total
Wall Finishes					
Access panels	1	LS	35,000	\$35,000	
Ceramic wall tile	24,584	SF	12	\$295,008	
Ceramic base	4,531	LF	11	\$49,841	
Subtotal					\$379,849
Floor Finishes					
Concrete sealer	3,475	SF	1	\$3,475	
Traffic coating	97,736	SF	1.50	\$146,604	
Ceramic tile - bathrooms	20,748	SF	13	\$269,724	
Ceramic tile - kitchens	9,170	SF	13	\$119,210	
Ceramic tile - common areas	2,652	SF	13	\$34,476	
Ceramic tile - pool deck	1,972	SF	13	\$25,636	
VCT, 12"x12" - trash rooms, storage rooms, washer/dryer closets	8,642	SF	2.20	\$19,012	
Carpet - condos	73,766	SF	3.45	\$254,493	
Carpet - common areas	1,518	SF	4	\$6,072	
Wood flooring with acoustical mat	78,806	SF	6.15	\$484,657	
Rubber tile in exercise room	608	SF	15	\$9,120	
Subtotal					\$1,372,479
Painting:					
Paint gypboard ceiling	292,280	SF	0.50	\$146,140	
Paint concrete ceiling	109,394	SF	0.55	\$60,167	
Paint gypboard partitions	1,073,104	SF	0.52	\$558,014	
Paint concrete/masonry partitions	76,649	SF	0.63	\$48,289	
Epoxy coating in pool room; walls and ceilings, 3 coats	6,834	SF	4	\$27,336	
Painting/staining doors and frames	1,833	EA	85	\$155,805	
Subtotal					\$995,751
09000 TOTAL: FINISHES					\$7,118,331
10000 SPECIALTIES					
Miscellaneous Specialties:					
Toilet accessories - condo bathrooms (to include: toilet paper dispenser, towel bar, hand towel bar, medicine cabinet, mirror, and robe hook)	308	EA	400	\$123,200	
Rod and curtain at bathtubs	98	EA	40	\$3,920	
Glass shower doors	210	EA	450	\$94,500	
Grab bar sets at ADA units and accessible toilet rooms	72	EA	100	\$7,200	
Shower seats at ADA units	70	EA	125	\$8,750	
Men's and women's locker room wire mesh lockers	224	EA	215	\$48,160	
Wall to wall mirror 8'-0" height in exercise room	76	LF	100	\$7,600	
Mailboxes	1	LS	20,000	\$20,000	
Storage lockers in parking areas	224	EA	420	\$94,080	
Interior signage	1	LS	25,000	\$25,000	
Exterior signage	1	LS	10,000	\$10,000	
Subtotal					\$442,410
10000 TOTAL: SPECIALTIES					\$442,410



	Description	Quantity	Unit	Unit Cost	Subtotal	Total
11000	EQUIPMENT					
	Miscellaneous Equipment:					
	Kitchen appliances in condos; includes oven/range, refrigerator, dishwasher and microwave.	224	EA	1,795	\$402,080	
	Washer & dryer units	224	EA	1,000	\$224,000	
	Community room appliances: includes cook top, refrigerator, & microwave	1	LS	2,000	\$2,000	
	Trash chute	199	LF	200	\$39,800	
	Subtotal					\$667,880
11000	TOTAL: EQUIPMENT					\$667,880
12000	FURNISHINGS					
	Window Treatment:					
	Mini blinds	224	EA	200	\$44,800	
	Subtotal					\$44,800
12000	TOTAL: FURNISHINGS					\$44,800
13000	SPECIAL CONSTRUCTION					
	Aquatics:					
	Swimming Pool (per Badger Swim Pools)	1	LS	135,000	\$135,000	
	Whirlpool	1	LS	7,500	\$7,500	
	Subtotal					\$142,500
13000	TOTAL: SPECIAL CONSTRUCTION					\$142,500
14000	CONVEYING SYSTEMS					
	Elevators:					
	Geared traction public passenger elevators, 2500 lbs, 19 stops, 200 fpm	3	EA	271,000	\$813,000	
	Subtotal					\$813,000
14000	TOTAL: CONVEYING SYSTEMS					\$813,000
15000	HVAC					
	HVAC Systems:					
	Heating & Cooling system, floors 1-5	125,334	SF	2.50	\$313,335	
	Heating & Cooling system, floors 6-19	285,460	SF	4.25	\$1,213,205	
	Ventilation system, floors 1-5	125,334	SF	1.75	\$219,335	
	Ventilation system, floors 6-19	285,460	SF	2.50	\$713,650	
	Subtotal					\$2,459,525
15000	TOTAL: HVAC					\$2,459,525
15000	PLUMBING					
	Plumbing Equipment and Specialties:					
	Plumbing Equipment and Specialties allowance	1	LS	200,000	\$200,000	
	Subtotal					\$200,000



Description	Quantity	Unit	Unit Cost	Subtotal	Total
Pipe Including Fittings, Valves, and Supports:					
Allowance for domestic, sanitary, vent, storm piping & insulation, gas including pipe & valve tagging, system testing and balancing	410,794	SF	3	\$1,232,382	
Subtotal					\$1,232,382
Plumbing Fixtures:					
Water closets, residential tank-type	308	EA	562.50	\$173,250	
Water closets, ADA type in ground floor toilet rooms	2	EA	1,275	\$2,550	
Lavatories, wall hung w/ carrier and manual faucets	2	EA	1,312.50	\$2,625	
Lavatories, integral vanity, faucet, hookup	308	EA	525	\$161,700	
Showers	210	EA	750	\$157,500	
Tub/shower combination	98	EA	1,050	\$102,900	
Kitchen sinks, stainless steel	225	EA	675	\$151,875	
Washer/dryer box & hookup	224	EA	187.50	\$42,000	
Dishwasher connections	224	EA	150	\$33,600	
Mop basin (Level 1)	1	EA	1,200	\$1,200	
Subtotal					\$829,200
15000 TOTAL: PLUMBING					\$2,261,582
15000 FIRE PROTECTION					
Fire Protection Systems:					
Sprinkler systems	410,794	SF	1.25	\$513,493	
Fire extinguishers and cabinets	57	EA	650	\$37,050	
Subtotal					\$550,543
15000 TOTAL: FIRE PROTECTION					\$550,543
16000 ELECTRICAL					
Electrical Systems:					
Electrical systems, floors 1-5	125,334	SF	3.50	\$438,669	
Electrical systems, floors 6-19	285,460	SF	7.75	\$2,212,315	
Subtotal					\$2,650,984
16000 TOTAL: ELECTRICAL					\$2,650,984

