March 31, 2023

Re: Summary of the Community Plan Design, the Preliminary Pro Formas and Construction Cost Estimates, and the Projected Financial Implications to the City.

The following explains the adjusted preliminary pro forma (PPF) prepared by RKG Associates on behalf of the City and SoBow Square, our Development Partner. This summary also offers information contrasting RKG's PPF to the 2019 and 2022 PPFs provided by our Development Partner. Prior to RKG's evaluation, Cumming Management prepared construction cost estimates (CCE) for the Baseline Community Plan. In addition, Cumming calculated the reduction in construction costs resulting from numerous value engineering changes used to develop two alternative options of the Community Plan, labeled Options 1 & 2 as shown in Exhibit 1 on page 5. These adjusted CCEs were used in RKG's PPF analysis and output table shown in Exhibit 1.

Community Plan Design Options - Utilizing the same methodology and short-term return approach as the 2019 Redgate / Kane Plan, over the past three months, the City's experts evaluated the financial implications of three (3) scenarios of the Community Plan described as follows:

1. Baseline Community Plan: The first scenario of the Community Plan (the "*Baseline*") is the original plan approved by the City Council in 2022. This plan is characterized as having two new angled buildings along Bow and Penhallow Street that flank a covered Markethall. The total square footage of the new construction is approximately 61,000 SF.
2. Option 1 – Open Market Hall: The second scenario of the Community Plan ("*Option 1*") is characterized as two squared off buildings (parallel to the street edge) flanking an uncovered Markethall. The total new square footage of the new buildings is approximately 65,000 SF.
3. Option 2 – Open Market Hall with Arcade: The third scenario of the Community Plan ("*Option 2*") is characterized as two wider, squared-off buildings (parallel to the street edge) flanking an uncovered Markethall with a public pedestrian arcade located on the ground-floor of each building and edging the open public Markethall. The total new square footage of the new buildings is approximately 78,000 SF.

Preliminary Pro Forma - In order to validate the 2022 figures proposed by our Development Partner, the city retained the services of Kyle Talente from RKG Associates - an economic planning and real estate consultancy with offices in Boston, Ma and Washington, D.C. Mr. Talente reviewed the Development Partner's 2019 pro forma and conducted a revenue analysis using both an Escalation Approach (using the 2019 figures) and a Market Assessment Approach (based on current market conditions). Mr. Talente then, adjust the projected revenues and expenses shown in the Development Partner's November 2022 Preliminary Pro Forma for the project.[1] The following is a summary of RKG's adjusted

[1] In contrast to our Development Partner's 2019 estimate of total project cost of $61m and a Net Operating Income (NOI) of $4.6m (for a slightly larger sized project), the Development Partner's 2022 PPF estimates a total project cost of $120m with an estimated Net Operating Income of just $2.8m. Using the agreed to unlevered return on cost of 7.4% results in a city contribution amount of $82m (nearly 70% of the total estimated project cost). Contrary to the Development Partner's PPF, RKG's 2023 PPF estimated the Baseline Community Plan to project a total project cost of $100.6m (based on the CCE from Cumming) with an estimated NOI of $3.7m and a City Contribution Amount of $50.7m (approximately 50% of the total project cost).

PPF as applied across all three design alternatives listed above with corresponding figures (represented as rows) and a brief summary of their meaning.

ROW 1: Estimated Construction Cost – In order to validate the CCE proposed by our Development Partner, the City retained the services of Greg Steele, from Cumming Management Group based in New York, NY to review and validate the assumptions and accuracy of the construction cost estimates and, if necessary, to adjust the estimates to represent a more accurate projection of the construction costs. After careful analysis, adjustments were made to the CCE, and the City our Development Partner generally agreed on the revised CCE (as shown on Exhibit 1). Additionally, two alternative Community Plan designs were also evaluated by Cumming to decrease construction costs through material changes and efficiency measures as well as to increase revenue by adding additional leasable space.[2]

ROW 2: Net Operating Income – The NOI is derived by adding all the anticipated rents from the net leasable areas in the project and subtracting all operating costs (i.e. maintenance, taxes, insurance…). Revenue generally includes all parking, retail, office, and residential leases. The 2019 Redgate/ Kane plan utilized a so-called "short-term return approach" which has a primary focus on obtaining up-front or short-term revenue in terms of leasing contracts and tenants being largely responsible for their tenant improvements. In contrast, the Development Partner's 2022 PPF indicates a so-called "long-term return strategy" - also termed a "legacy", "placemaking", or "annuity" approach to leasing – where the developer seeks lower initial leasing and rental rates in order to attract better and longer-term operators/ tenants (such as a so-called "best-in-class" restaurant). By shifting to a *legacy* or *placemaking* scenario the lease or rental rates are often heavily discounted, and the initial high cost of tenant improvements are also often shifted to the landlord.[3]

ROW 3: Return on Cost Percentage – The Return on Cost (ROC) percentage is also called the "unlevered return on cost" which is a method used to measure the financial feasibility of the project for an investor or equity partner.[4] The 2022 Settlement Agreement set the ROC at 7.4% for the Community Plan.

ROW 4: Developer's Contribution Amount –The NOI/ROC equals the Developer's contribution amount supported by the NOI.

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[2] According to Cumming, the CCE are approximately $100.7m for the *Baseline* Community Plan, $90,758,682 for *Option 1*, and $95,300,346 for *Option 2*. Note that Options 1 & 2 include value engineering changes that include cost reductions deriving primarily from the squaring of the new buildings, removal of the glass and steel roof, and several material changes. Cost increases pertain to the net increase in leasable space achieved by a slight widening of the new buildings. Note that the increase leasable space also results in a net increase of corresponding NOI.

[3] This so-called "placemaking" approach requires significant subsidization for the first generation of tenants at the point of project stabilization. In contrast to an NOI of $4.6m in the 2019 Redgate/Kane Plan (which employed a short-term return approach), our Development Partner's NOI for the *Baseline* Community Plan (shown in Exhibit 1) shows a much smaller NOI of $2.8m (a reduction of nearly 40%). This lower NOI corresponds to a shift to a long-term return strategy (or "*legacy"* project). Importantly, employing a long term *placemaking* or *legacy* approach results in the city fully underwriting the substantial subsidy of the lower lease or rental rates and the high-cost of tenant improvements. In contrast, RKG's 2023 proposed NOI of $3.7m (which is consistent with a short-term return strategy used by Kane/ Redgate in 2019) results in a substantial reduction in the City's contribution under the initial, high-level terms of the Settlement Agreement.

[4] The 2019 Redgate/ Kane Plan used a 7.4% ROC which corresponds to a typical expectation for an investor using a short-term return approach. Under the 2022 Settlement Agreement, the City and Developer agreed to the 2019 figure (7.4%) as the ROC for developing the 2022 Community Plan. Thus, both our Development Partner's PPF and RKG's adjusted PPF use a ROC of 7.4% against the NOI (NOI/.074) to determine the contribution amounts for both our Development Partner and the City.

ROW 5: City Contribution Amount – The City's Contribution Amount is the determined by subtracting our Development Partner's contribution amount from the total estimated project cost. Note that this figure is before any potential bonding the City might contemplate through reinvestment of the annual tax revenue and/or annual rents paid to the City by our Development Partner. Further, this figure does not include any other municipal bonding that might be supported by reinvestment of any revenue- or profit-sharing from our Development Partner as an equity partner (in the form of an annual equity payment to the City).

ROW 6: Percentage Contribution (Equity) – This is the equity percentage attributed to each party toward the total project cost. Note that this figure would be important in potentially allocating a pro-rated share of future profit to each party against the annual profits generated by the project.

ROW 7: Estimated Real Property Taxes (annual) – Using the projected annual income (or tax revenue) for the project, the projected assessed value was calculated to provide an estimate of the annual property tax revenue paid to the city.[5]

ROW 8: Baseline Ground Lease (Year 1) – This figure represents a placeholder amount of the annual ground rent paid to the city.[6]

ROW 9: Annual Tax and Rent Revenue – This is the sum of the property tax and the ground lease rent paid annually to the city.

ROW 10: City's Supportable Bonding Capacity – Using the total annual tax and ground rent revenue, the City could reinvest this revenue to support a municipal bond relating to public improvements (i.e., open space, streetscape, or infrastructure or utility improvements) associated with the project. Note that this reinvestment of reoccurring revenue would represent a significant public subsidy to enhance the overall financial feasibility of the project.

ROW 11: Federal Historic Tax Credit Subsidy (20% of Rehab Costs) – The project includes extensive renovations to the existing McIntyre Building(s) through the Monument Program which is administered by the National Park Service (NPS). Both the 2019 Redgate / Kane Plan and the 2023 Community Plan assume participation in the Federal Historic Tax Credit Program (HTC) program. Importantly, the NPS (the same entity that administers the HTC) would be reviewing the renovations under the Monument Program. Based on the adjusted CCE the HTC program would likely provide over $5m in public (federal) subsidy for the project and enhance its financial feasibility.

ROW 12: City's 'Out-of-Pocket' Amount – This figure represents the remaining share of the city contribution after subtracting the supportive bond capacity (Row 10) and the Federal Historic Tax Credit (Row 11) from the city's contribution (shown in Row 5).

ROW 13: Indirect Public Infrastructure Improvements – This figure represents the neighborhood utility and infrastructure improvements that are outside the project scope for the Community Plan. Many of these improvements are already on the City's Capital Improvement Program but need to completed

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[5] Note that the property is currently off the tax roll so all projected property taxes represent new annual tax revenue to the city.

[6] The 2019 Redgate / Kane Plan – where the city did not participate as an equity partner and made no contribution to the cost of construction - used a figure of $100,000 for the ground lease rent, thus, this figure is expected to be renegotiated given the City's estimated 40% equity participation under Option 2 of the 2022 Community Plan.

within this project due to the level of improvements proposed for the utility, infrastructure, and streetscape designs associated with Daniel, Penhallow, and Bow Streets.

ROW 14: City's 'True' Cost – This figure represents the City's remaining share of the contribution amount after removing the Indirect Public Infrastructure Improvements (Row 13). Note this figure does not include further reductions associated with revenue- or profit-sharing (Row 17).

ROW 15: Before Tax Cash Flow (Year 1) – The Before Tax Cash Flow (BTCF) represents the total annual estimated revenue (profit) after servicing the debt generated by the project.

ROW 16: City Share – This figure is the equity contribution or the percentage contribution (Row 6).

ROW 17: City's Pro-Rated Share of the BTCF Amount – Using the equity contribution (the percentage contribution shown in Row 6), this figure represents the City's pro-rated / fair-share amount of the annual estimated profit generated by the project.

ROW 18: City's Supportable Bonding Capacity – Using the City's pro-rated shared of the before tax cash flow (or profit), the City could support a municipal bond relating to public improvements (i.e. open space, streetscape, or other utility improvements) associated with the project in order to further enhance the financial feasibility of the project. Note that any reinvestment of the city's share of any project-generated profit represents another public subsidy being considered to enhance the overall financial feasibility of the project (without adversely effecting the City's obligations in providing a 7.4% ROC to our Development Partner.

ROW 19: Direct Project Impacts to the Tax Rate – This figure represents the direct "out-of-pocket" contribution or subsidy needed from the city to support financing the construction of the project. Coupled with the Indirect Public Infrastructure Improvements (Rover 13) this figure directly impacts the tax rate. However, other revenue-sharing provisions – like a percentage of any sale or transfer of the lease, or refinancing proceeds, are already listed in the draft 2019 Ground Lease so as these items are further negotiated the city's contribution may be reduced. Thus, these other revenue-sharing opportunities could also be utilized by the city to further reduce the City's bottom line "out of pocket" contribution and thereby make the project more financially feasible.

Exhibit 1 – RKG's Adjusted Preliminary Pro Forma for 3 Design Options of the Community Plan

		1	2	3	
					
	Community Plan Option	**Baseline**	**Option 1**	**Option 2**	
Item No.	**Description**	**2022 Community Plan**	**Angled with Open Market Hall**	**Squared with Arcade and Open Market Hall**	
1	Total Construction Cost	$100,676,526	$90,758,682	$95,300,346	Costs, NOI, & Contribution Amounts
2	Net Operating Income	$3,694,956	$4,001,022	$4,339,028	
3	Return on Cost Percentage	**7.4000%**	**7.4000%**	**7.4000%**	
4	Developer's Contribution Amount	$49,931,834	$54,067,866	$58,635,509	
5	City Contribution Amount (before reinvestment of property tax and rental income, and profit sharing as an equity partner)	$50,744,693	$36,690,816	$36,664,837	
6	**Percentage Contribution**	**50.4%**	**40.4%**	**38.5%**	
7	Estimated Real Property Taxes (Annual)	$864,058	$935,635	$1,014,666	Reinvested Taxes & Rent
8	Baseline Ground Lease (Year 1)	$100,000	$100,000	$100,000	
9	Annual Tax and Rent Revenue	$964,058	$1,035,635	$1,114,666	
10	City's Supportable Bonding Capacity (from Annual Tax and Rent Revenue)	$12,173,266	$13,077,076	$14,075,010	
11	Historc Tax Credit Subsidy (20% of Rehab Costs)	$5,153,913	$5,153,913	$5,153,913	HTC
12	City's 'Out-of-Pocket' Amount (before profit-sharing as an equity partner)	$33,417,514	$18,459,827	$17,435,915	Indirect Costs
13	Indirect Public Infrastructure Improvements	$4,359,988	$4,359,988	$4,359,988	
14	City's 'True' Cost (before profit-sharing as an equity partner)	$29,057,526	$14,099,839	$13,075,927	
15	Before Tax Cash Flow (BTCF - Profit in Year 1)	$1,140,738	$1,236,147	$1,340,394	Profit Sharing
16	City Share (Equity Percentage)	50.4%	40.4%	38.5%	
17	City's pro-rated shared of the BTCF Amount	$574,974	$499,734	$515,689	
18	City's Supportable Bonding Capacity	$7,260,258	$6,310,200	$6,511,661	
19	**City's Net Contribution Amount with Reinvenstment of Taxes and Rent and Profit Sharing as an Equity Partner**	**$21,797,268**	**$7,789,639**	**$6,564,266**	