KATZ NO. 9 REDEVELOPMENT

Financial But-For Analysis

Neighborhood Planning and Development Meeting | City Council of Kansas City, Missouri
June 16, 2021

Image Source: Hoefer Wysocki

SBFRIEDMAN

VISION
ECONOMICS
STRATEGY
FINANCE
IMPLEMENTATION

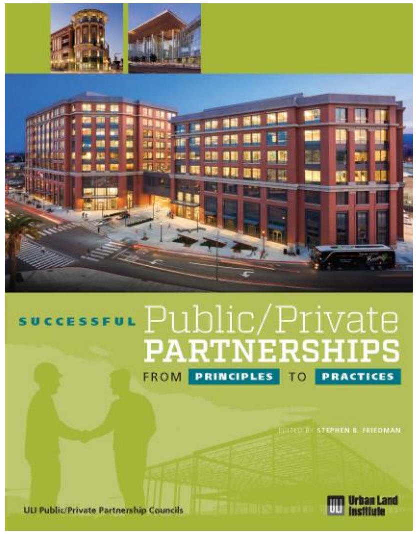
OUR EXPERIENCE AND PERSPECTIVE

SB Friedman

- Vision to Deal since 1990
- National leaders in public-private partnerships
- Nearly $5 billion in PPPs for $28 billion in projects
- Registered with MSRB as Municipal Advisor

EDCKC Project Team

- Dedicated senior staff
    - Fran Lefor Rood, Senior Vice President
    - Lance Dorn, Vice President
- 1-2 additional staff members for each project
- Ensures consistent approach and historical knowledge



NECESSARY CONDITIONS FOR PROVIDING PUBLIC ASSISTANCE

Our primary focus with EDCKC is evaluating "but for"; other conditions should inform decision-making

1. Project contributes to important public policy goals

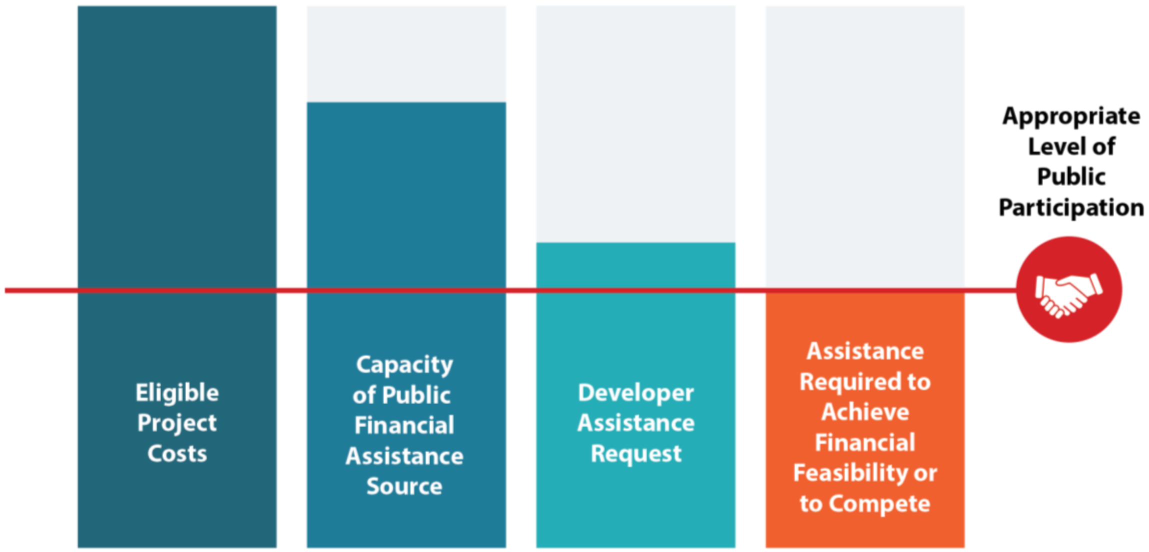
2. Project is economically feasible with assistance

3. Project would not proceed as desired 'but for' the assistance

4. Project pays for itself through generated revenues or economic impacts

FINANCIAL GAP/“BUT FOR” APPROACH

- Evaluate project economics and reasonableness of assumptions
- Size amount of assistance needed to achieve market-appropriate rates of return
- Benefits of approach
  - Guards against over-subsidizing projects
  - Demonstrates that incentives are being used judiciously
  - Reduces the appearance of arbitrariness
  - Helps articulate the case for (or against) assistance
  - Helps define & clarify the problem
    - Informs deal structure, development program



TYPICAL ENGAGEMENT WITH EDCKC

- Conduct calls with developer and EDCKC
- Conduct analyses
- Prepare briefing book
- Present findings to agency directors

Core Components of Analysis

1. Review Project and Context	• Where is the Project located? • What is the development program and mix of land uses?
2. Evaluate Development Budget	• What are the Project uses? (land, construction costs, etc.) • Are Project costs in line with industry benchmarks? If not, why?
3. Evaluate Financial Assumptions	• How does the Developer intend on financing the Project? • Has the Developer exhausted all potential funding sources before requesting public assistance?
4. Evaluate Operating Assumptions	• Are revenue (e.g. rents) and expense assumptions reasonable given target tenant profile, market context, and industry benchmarks?
5. Calculate Project Returns	• Is the project achieving a level of financial return that would allow it to attract the required debt and equity to support the project?
6. Estimate Financial Gap	• Is there a demonstrable financial gap that requires public assistance to make the project successful?
7. Identify Drivers of Need for Assistance	• What project components are driving the financial gap? • Do they align with the City's larger policy goals? (e.g. affordable housing, workforce development, structured parking, etc.)

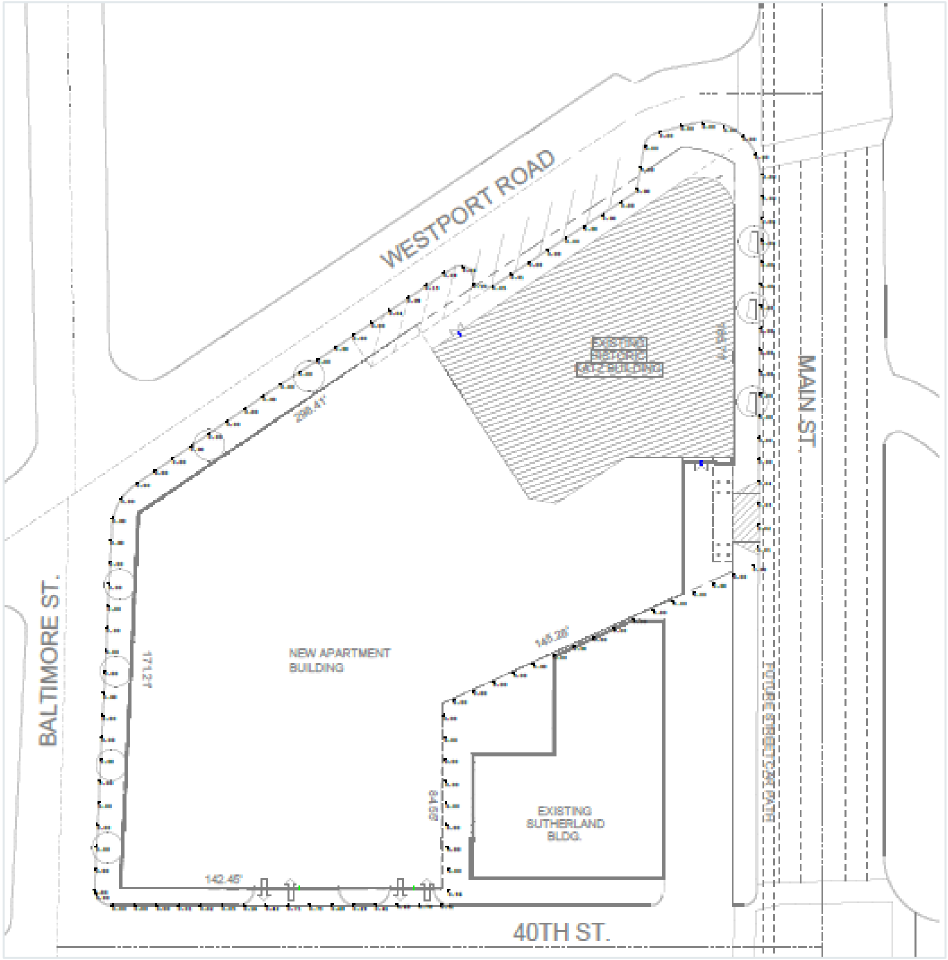
DRAFT

FINDINGS

KEY FINDINGS: KATZ NO. 9

- Project is not subject to recent ordinances
- Portion of Project is eligible for state and federal historic tax credits (HTC)
  - Developer indicated Project would likely score low on state HTC scorecard
- Core drivers of need for assistance
  - Rents do not support density, design and amenities
  - 20,000 SF amenity space (historic Katz building) costs $3.0 million to renovate but does not generate revenue
    - 3-4x larger than amenity space for comparable projects
  - Structured parking is not supported by parking revenues
- Additional considerations
  - KC Streetcar extension is likely to generate rent premium for project upon completion
  - Project rents do not account for any Streetcar premium

Katz No. 9 Site Plan



Source: Hoefer Wysocki, Lux Living

KATZ NO. 9 REDEVELOPMENT

Results of Financial Analysis

	DEVELOPER REQUEST	ALTERNATIVE LEVELS OF ASSISTANCE	
Assistance:	STECM	STECM	STECM
PIEA Property Tax Abatement	75% for Years 1-10 37.5% for Years 11-25	75% for Years 1-10 37.5% for Years 11-15	75% for Years 1-10
Value of STECM	$1.0M	$1.0M	$1.0M
Benefit to Project of Abated Property Taxes (Undiscounted)	$5.4M	$3.8M	$3.0M
Undiscounted Value of Total Assistance	**$6.4M**	**$4.8M**	**$4.0M**

RETURNS	BENCHMARK RANGE	NO ASSISTANCE	REQUESTED ASSISTANCE	15 YEARS OF ASSISTANCE	10 YEARS OF ASSISTANCE
Stabilized Yield on Cost	6.0 – 6.5%	5.1%	6.1%	6.1%	6.1%
Unleveraged IRR	7.0 – 7.5%	5.4%	6.7%	6.5%	6.4%

- Project returns are not meaningfully impacted by reduced period of abatement; yield on cost is the same across all scenarios
- Development agreement should require **a check-in every five years** starting at Year 5 to evaluate performance compared to pro forma assumptions given probability of Streetcar-related rent increases
    - **Public assistance should be reduced** in the future if the Project is outperforming projections

DISCUSSION

Source: Hoefer Wysocki

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