October 24, 2024

But-For Determination Report

Oldham Village

Lee’s Summit, Missouri

Contents

Executive Summary

The City of Lee's Summit, Missouri ("City") retained Baker Tilly Municipal Advisors ("BTMA") to review a request for financial incentives from Drake Development ("Applicant") for its proposed Oldham Village ("Project). The Applicant proposes to redevelop approximately 50+ acres located near the South M-291 & US 50 Highway interchange. The proposed Project is intended to be a mixed-use development consisting of 307 multi-family units, fifteen commercial retail pad spaces and a sports fieldhouse to be constructed by the Applicant and owned by the City.

The Applicant seeks tax increment financing ("TIF"), a 1.0% 27-year community improvement district ("CID") sales tax to be imposed within and beyond the Project area, a 0.50% transportation development district ("TDD") sales tax to be imposed within the Project Area and potentially on adjacent properties, as well as a property tax and sales tax exemption through the Land Clearance for Redevelopment Authority (together, the "Incentive").

The City seeks to understand whether the Project would reasonably be anticipated to be undertaken in the current market without the requested Incentive.

The profitability measurement used to evaluate the need for assistance is the return on investment, termed the internal rate of return ("IRR" or "Return"). To determine the likelihood that the Project would be undertaken without the Incentive, the Applicant's estimated IRR without Incentive is compared to the Return sought by investors in similar projects in the current marketplace.

BTMA reviewed the Applicant's pro forma and the underlying assumptions regarding Project financing, construction costs, and operations. BTMA determined that the proposed Project without the requested Incentive has a forecasted Return that is below the national average benchmark return and would fail to generate a sufficient return on investment. The extensive sitework necessary to remediate the blight along with the utility work are the major drivers of the need for Incentive. The Project Return with the requested Incentive falls within the PwC range for multi-family developments and the national net lease market.

The graphic on the following page visualizes the estimated IRR compared to the market benchmark returns from the *PWC Real Estate Investor Survey, Second Quarter 2024*.


Internal Rate of Return Analysis (IRR)
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
PwC Range (Upper Boundary) - Net Lease, 11.00%
PwC Range (Upper Boundary) - Multi-family, 9.00%
Project IRR - With Incentive, 7.39%
PwC Range (Lower Boundary) - Net Lease, 6.00%
PwC Range (Lower Boundary) - Multi-family, 6.00%
Project IRR - Without Incentive, 1.49%

Purpose and Approach

The report that follows is pursuant to Missouri Statutes 99.800 et seq. relative to a determination that the proposed development scenario within the proposed TIF Redevelopment Plan would not reasonably be anticipated to be developed without the adoption of the Plan. The City seeks to understand whether the Project would reasonably be anticipated to be undertaken within the current market without the requested public financial assistance.

BTMA evaluated Project information provided by the Applicant - including Project financing, timing, construction costs, and operations - to measure the Applicant's expected profit relative to Project risks. If it is assumed that the Project is owned and operated as an investment, a measure of return can be calculated considering the time value of money and an assumed sale of the property at an appropriate market price. This analysis is termed the internal rate of return ("IRR" or "Return") and estimates the profitability of an investment. To determine the likelihood that the Project would be undertaken without public assistance, the Applicant's estimated unlevered IRR, without assistance, is compared to the Return sought by investors for like projects in the current marketplace.

The unlevered Return – which assumes the Project is financed entirely with equity and without debt - is utilized to facilitate comparison of the forecasted Project Return to a national investor survey.

Disclosure & Reliance

This Analysis is not an opinion of the likelihood of success of the proposed Project. BTMA has based this analysis upon projections provided by the Applicant. BTMA has completed due diligence to review the Applicant's projections using its institutional knowledge and, where applicable, third-party sources. BTMA utilized the Applicant's projections as provided unless otherwise noted. Where BTMA suggests alternative projections or assumptions, the reason and source of the proposed alternatives are described. Projecting outcomes for projects of this nature involves subjective judgment which may or may not prove correct. BTMA makes no representations or warranties, expressed or implied, as to the accuracy of this analysis, and nothing herein is, or shall be relied upon as, a representation or warranty with respect to future result.

The Project

The Applicant is proposing a 50+ acre mixed-use redevelopment of several parcels to include: i) 307 multi-family dwelling units, ii) the development of fifteen commercial retail spaces, and iii) a sports fieldhouse to be developed by the Applicant and owned by the City. The Project site is located near the South M-291 & US 50 Highway Interchange.

The proposed Project includes a 120,000 square foot fieldhouse development located on 8.52 acres to be purchased by the City's Parks and Recreation Department and used as a recreational facility. The land and the fieldhouse improvements will be developed by the Applicant and sold to the City for the purchase price of $5,187,030. The facility is intended to meet the demands of growing youth sports associations in Lee's Summit and for year-round training and practice.

The subject site comprises an additional 42 acres of 16 parcels. These 16 parcels are currently warehouses and industrial sites which will be converted to mixed-use multi-family housing and commercial retail developments. The proposed multi-family development will be approximately 463,840 square feet with 307 units in total.

The Project also includes the development of 15 commercial retail buildings ranging between 1,000 and 10,000 square feet. These retails sites are expected to include a combination of full-service and quick-service restaurants, a gas station, and a 9,300 square grocery store. The Applicant indicated that they intend to maintain ownership of the buildings with a triple net lease agreement. In addition to the multi-family development and the commercial retail buildings, the Applicant is considering a potential land sale in the amount of $1,856,211. The land would be sold directly to a third party; the Applicant does not otherwise have any planned use for this parcel.

Construction is expected to begin in 2025 with development proceeding in stages. The first commercial retail buildings are planned to open in the second quarter of 2026. The remaining commercial buildings are projected to open throughout 2027. The redevelopment of the Project Area concludes with the multi-family development which is estimated to be completed in Q3 of 2029.

Assistance Request

The Applicant seeks tax increment financing ("TIF"), a 1.0% 27-year community improvement district ("CID") sales tax to be imposed within and beyond the Project area, a 0.50% transportation development district ("TDD") sales tax to be imposed within and potentially beyond the redevelopment area for a period of 29 years, 75% property tax abatement on the multi-family development only for a duration of 25 years, and sales tax exemption on construction materials through the Land Clearance Redevelopment Authority (together, the "Incentive").

Redevelopment Area – The redevelopment area includes approximately 50.54 acres and nineteen separate parcels. The redevelopment area is located in the southwest quadrant of the US 50 / Missouri Route 291 Interchange and is bounded by the SW Oldham Parkway, the southern right of way of the US 50 Highway exit ramp on the north, Missouri Route 291 to the east, and SW Persels Rd to the south.

CID Sales Tax – The Applicant has proposed a community improvement district with a 1.0% sales tax which will likely include all of the Redevelopment Area and potentially other adjacent properties. The CID's 1.0% sales tax will be applicable to all taxable sales within the proposed boundaries; the term of the CID may be up to 27 years and will be determined by the petitions to form each district. The Applicant's pro forma in the CBA currently shows reimbursable Project costs being repaid in 22 years.

TDD – The Applicant has proposed a transportation development district with a 0.50% sales tax to be imposed on the Redevelopment Area and potentially other adjacent properties. The TDD's 0.50%, up to 29-year sales tax will be applicable to all taxable sales occurring within the TDD boundaries.

100% of the CID and TDD sales tax proceeds are expected to be used to reimburse public improvements.

TIF – The Applicant is requesting reimbursement of eligible Project costs through redirection of 100% of the incremental increase in ad valorem property tax revenues ("PILOTS") and 50% of the incremental increase in economic activity (sales) tax revenues ("EATS") collected within the TIF district. Four redevelopment project areas are anticipated with each eligible for tax redirection for up to 23 years. The Applicant projects the TIF Redevelopment Area will be active for the total life of the TIF - 23 years.

The Applicant is also requesting that the City dedicate its sales taxes not redirected by TIF for payment of the fieldhouse land. This additional sales tax redirection includes 50% of the City's uncaptured sales taxes within the Project Area with a duration of 23 years.

LRCA – The Applicant anticipates that a separate project area will be prepared in accordance with the Land Clearance for Redevelopment Authority Act. The Highway 291 South LCRA Redevelopment Plan will include some or all of the

Redevelopment Area. As a result of public ownership by the City in accordance with the LCRA project plan, all construction materials which are Redevelopment Project Costs will be exempt from state and local sales taxes. Except for the residential portion of the LCRA project plan which will remain in public ownership to provide a long-term tax abatement of approximately 25 years, it is expected that the commercial property will return to private ownership upon completing construction.

The following table shows the total expected net present value of each incentive and its share of the total Project cost. These estimates are from the Applicant's cost benefit analysis. BTMA has not been asked to verify the accuracy of these estimates.

Incentive	Estimated NPV Amount	% of Project Costs
CID	$21,515,697	11.81%
EATS	8,229,312	4.52%
STECM	5,200,067	2.85%
PILOTS	3,559,314	1.95%
TDD	3,316,779	1.82%
LCRA Abatement	3,202,000	4.61%
Total	**$45,023,169**	**27.56%**

Return Analysis

The Applicant provided a Project pro forma detailing timing, financing, construction costs, operating revenues and expenditures and assumptions for the requested Incentives. Utilizing the baseline pro forma provided by the Applicant, BTMA calculated the return on an unlevered basis to estimate the potential Return with and without the Incentives. The Return realized by the Applicant is a result of the assumptions used in the creation of the operating pro forma. Therefore, several steps must be taken to analyze the reasonableness of the assumptions used.

Step One – Evaluate Project Costs

The first step in analyzing the Return to the Applicant is to determine if the assumed Project costs are reasonable. If the Applicant experiences cost savings, absent any other changes, the Applicant will realize a greater return. Where applicable, BTMA compared estimated Project costs to third-party sources to gauge the reasonableness of the Applicant's pro forma assumptions and to consider whether alternative assumptions should be utilized. The Applicant's overall project expenditures are detailed in the following table.

Expenditures by Type		$PSF (land)	$PSF (building)
Multi-Family Construction	$69,576,000		$150.00
Soft Costs	40,341,449	18.52	76.16
Sitework Costs	28,948,818	13.29	54.65
Retail Construction	24,176,125		367.00
Acquisition	19,105,018	8.77	
Tenant Improvements	3,341,325		50.72
Total	**$185,488,735**		

The following sections consider the assumptions for the major expenditure categories.

Residential / Multi Family

The Applicant provided an estimate of $150.00 per square foot to construct a 463,840 multi-family development with approximately 307 units. The Project is still in the preliminary planning stages. Therefore, the unit mix and cost are undetermined.

To provide a cost comparison, recognizing that design of the multi-family units is not yet finalized, BTMA used RSMeans Data from Gordian to estimate the cost of constructing a new multi-family development in the Kansas City submarket. RSMeans provides accurate and regularly updated construction cost estimates which can be used as a reference to verify the reasonableness of the Applicant's estimated costs.

The Applicant indicated that its recent development in Lee's Summit, "The Signature at West Pryor," is comparable to what they intend to develop in Oldham

Village. Given this statement and the estimated gross rents proposed by the Applicant, we are assuming a 4- or 5-star type building – what is typically considered a luxury building.

BTMA used the Signature at West Pryor development as the basis for our cost assumptions to determine the structure and framing type. A wall and framing type of fiber cement and wood frame appears to be the most reasonable comparison without knowing the specific designs of either the recent development or the proposed Project. Per RSMeans, the cost to construct a multi-family building with the previously described features, three stories, and 463,480 square feet in size is approximately $158.38 per square foot. As the Project is in the preliminary design stage and the estimate is near the reference cost in the Kansas City market for a multi-family building as described above, the Applicant's assumed cost of the multi-family development appears to be reasonable.

Retail Construction

The Applicant provided an average total cost estimate of $367.00 per square foot to construct the fifteen retail spaces in their development plan. Their estimated $367.00 per square foot is inclusive of construction costs and tenant improvements. A separate pro forma provided by the Applicant in their cost benefit analysis shows an estimated tenant improvement cost of $3,341,325 or approximately $50.72 per square foot. Subtracting out the tenant improvements, the total estimated construction cost of the the retail components is approximately $20,834,800 or $316.28 per square foot.

BTMA used RSMeans to estimate the per square foot cost for each retail component identified by the Applicant in their response to our request for information. Costs can vary widely depending on fees such as general contractor fees, architect fees, and other costs. For each estimate, we assumed a standardized assumption of 5.00% for general contractor fees and 7.00% for architectural fees. We also assumed brick veneer and wood frame for each component of the retail development – except for the car wash and fuel station. RSMeans does not provide data for gas stations, so a reasonable estimate cannot be provided at this time.

Our estimates for each of the retail components range between $189.69 and $307.88 per square foot – depending on the type of structure. We estimate a median cost per square foot of approximately $228.35. The PwC provides approximate estimates for tenant improvement allowances in their real estate investor survey. According to the PwC survey, tenant improvement allowances ranged between $10.00 PSF and $150.00 PSF with an average of $48.50 PSF.

The Applicant's estimates for tenant improvements align with what is reported in the PwC survey; however, their estimates for construction costs were considerably higher compared to the industry reference. RSMeans data is limited to generic project types, and a development built to suit a tenant may be considerably higher. BTMA requested an additional breakdown of how the construction costs were estimated. However, this information had not been provided at the time this Report was prepared. Based on the high sensitivity and low confidence in the Applicant's construction costs, a sensitivity analysis is provided in the final evaluation of the Applicant's IRR.

Sitework Costs

The Applicant expects to incur significant sitework costs. Extraordinary challenges to develop this site include remediation of blighted parcels, demolition, sanitary sewer upgrades, roadway relocation, relocation of underground powerlines, and the reconstruction of the regional stormwater conveyance system. The site will also require grading due to the change in elevation. The Applicant has provided an estimate of $28,948,818 or $13.29 per square foot in total sitework costs.

The sitework budget proposed by the Applicant is as follows:

Budget Detail	Amount
Parking, landscaping, hardscape, signage, other	$10,249,780
Roadway, sanitary, and water improvements	5,898,801
Drainage and grading	5,442,658
Offsite sewer	3,000,000
Contingency	2,290,802
Electric and gas main relocation	1,216,590
Demolition	850,188
Total	**$28,948,819**

Bids have not yet been requested, but the Applicant indicated that they have had conversations with likely bidders to estimate the total costs. The Applicant also has significant internal expertise and the resources to estimate sitework costs.

Soft Costs

The Applicant estimates total soft costs for the Project to be $40,341,449 which equates to approximately 22.15% of the total Project costs. Per the information provided in the Applicant's TIF plan, the estimated softs costs are estimated as follows:

	Portion of Soft Costs	% of total Costs
Professional Services	$16,921,125	9.29%
Commissions and Marketing	2,181,292	1.20%
Financing Costs	18,252,281	10.02%
Permits and Fees	2,986,751	1.64%
Total	**$40,341,449**	**22.15%**

In additional discussions with the Applicant, there was an unspecified amount attributable to a developer fee as compensation which will cover expenses related to the Applicant's overhead with some margin of profit. However, the exact amount of profit relative to cost was not disclosed to BTMA. Developer fees are an industry standard and typically included in soft cost estimates. We recognize that these fees are paid to Applicant for developing the Project and have not incorporated developer fees into the return analysis.

Step Two – Evaluate Project Revenues

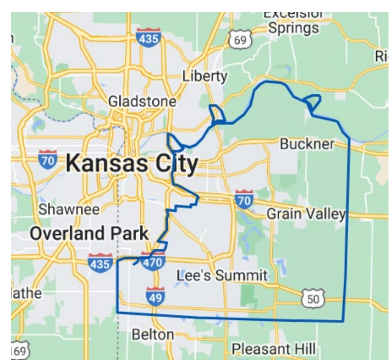
The second step in calculating the Return to the Applicant is to determine if the assumed Project operating revenues are reasonable. The Project will generate revenue from rental of the multi-family development and net leases of the commercial retail spaces. The Applicant forecasts that the multi-family units will generate annual net operating income of $3,857,295 after stabilization. The commercial net leases are expected to generate approximately $2,708,468.

To evaluate whether the Applicant's revenue estimates are reasonable, BTMA used the CoStar platform to evaluate rents within and around the Lee's Summit market for comparable developments.

Multi-Family Revenue

The exact unit mix and amount of space available for rent in the multi-family development is not yet finalized. The development is expected to include 307 units and net rentable square feet is estimated to be 264,941. The Applicant projects a gross monthly rent of $1.93 PSF and a net monthly rent of $1.21 PSF; this would equate to a monthly rent of approximately $1,665.59 for the average unit.

The CoStar platform provides multi-family submarket data for outlying Jackson County which captures the Lee Summit area (boundaries outlined in the image on the right). Asking apartment lease rates in Outlying Jackson County average about $1,190/month, putting the submarket in the top third among submarkets across Kansas City.

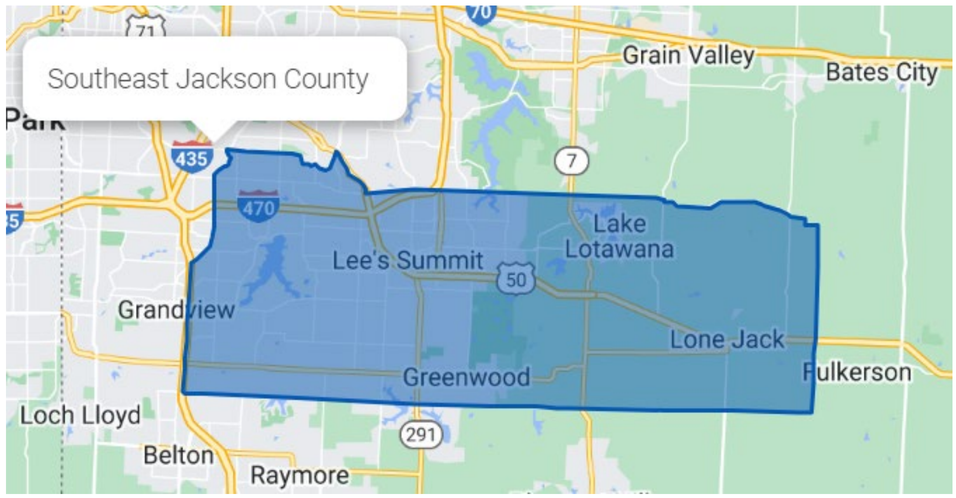


Rent growth is just ahead of the broader market, at 2.4% annually, which is about 100 basis points above its average from 2015 to 2019. Like many other parts of Kansas City, outlying Jackson County was a steady submarket in rent growth before this latest cycle of record tenant demand boosted rates, which saw rent growth peak at 7.3% in late 2021. Among four- and five-star multi-family developments, asking rents are approximately $1,515 per month. Based on the available market data, the Applicant's assumptions for the multi-family net operating income appear reasonable.

Commercial Revenue

The commercial spaces are being designed with a net lease structure with spaces to accommodate specific tenants. The Applicant has indicated that the commercial retail spaces will be built to suit for each tenant. Based on the total square footage of the retail space, approximately 65,875 square feet, this would equate to an average per square foot lease estimate of $58.55.

CoStar has more granular submarket data available for the retail market with the boundaries outlined on the following page.



Market rents for retail in Southeast Jackson County are approximately $21.00 PSF with a 3.4% growth over the previous year. Among four- and five-star retail buildings in Lee's Summit, the market-asking rent ranges between $15.00 PSF and $35.00 PSF with an average price of $26.50. The Applicant's proposed rents would be among the highest in the Lee's Summit area. The proposed Project area does provide great regional access due to its proximity to Route 291 via SW Oldham Parkway. This regional access may provide additional value to commercial tenants and thus command a higher market premium for rents. While the net operating income of the commercial leases are a high sensitivity and low confidence variable, lower commercial rents would diminish the Applicant's IRR. As the assumptions would be near the upper boundary of potential rents realized by the Applicant, a sensitivity analysis will not be necessary in this case.

Step Three – Evaluate Hypothetical Sale Assumptions

The third step in analyzing the return to the Applicant is to determine the value of a hypothetical sale of the asset in the tenth (final) year of the operating pro forma. The determination of the potential market value of the Project, through a hypothetical sale, is necessary as it allows for the inclusion of the value of the asset in the rate of return calculation. The calculation of an IRR without the hypothetical sale would result in an understated return. The assumption of a hypothetical sale should not be interpreted to convey that the Applicant intends to sell elements of the Project proposed for ownership and operation at the assumed or any other date.

The critical assumption when valuing the asset at the time of the hypothetical sale is the capitalization rate. The estimated net operating income is divided by the capitalization rate, which results in the assumed fair market value of the asset. The capitalization rate is intended to represent the yield of an investment over one year and is also a useful measure of risk. The Applicant has assumed a capitalization rate of 5.00%.

BTMA compared the forecasted Project Returns and the proposed capitalization rates to a third-party reference, the *PwC Real Estate Investor Survey, Second Quarter 2024*, a national survey which publishes data on the commercial real estate marketplace sampled from active investors. BTMA referenced the PwC survey to assess whether the Project would proceed (on an unlevered basis) without the requested Incentive.

The reported capitalization rates from the PwC Survey for multi-family developments range between 4.00% and 8.50% with an average of 5.48%. The range for the national net lease market is between 6.25% and 9.00% with an average of 7.51%. The Applicant's 5.00% cap rate assumption would be considered reasonable based on the PwC survey. Capitalization rates also tend to follow interest rates, and a decline in cap rates may follow in a lower interest rate environment.

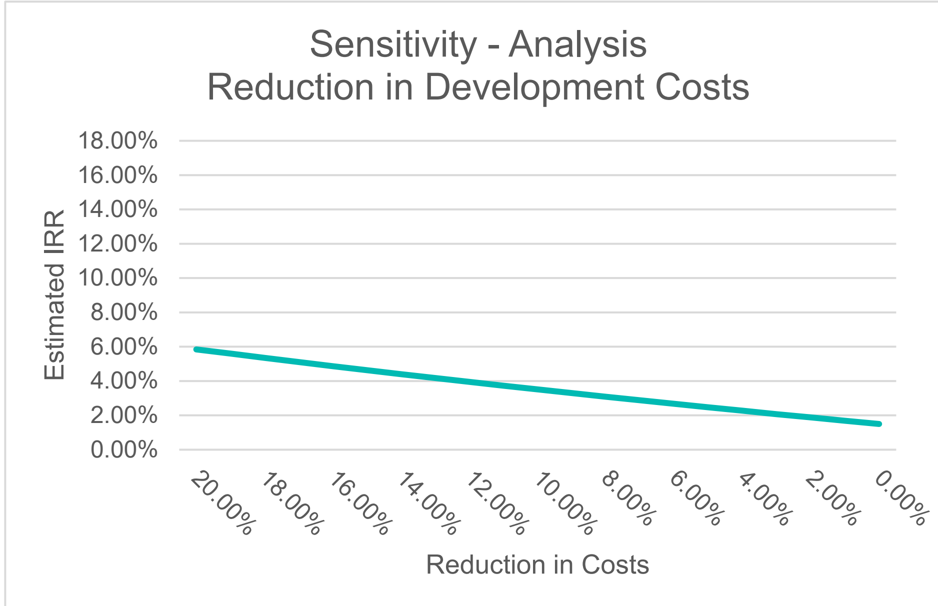
The Applicant's original pro forma shows an unlevered return of .68% without the requested Incentive and 7.08% with Incentive. BTMA modeled an internal rate of return estimate based on the Applicant's provided schedule, phasing, and other assumptions. We assumed a standard 1.5% growth rate in revenues. Commercial operating expenses are kept constant and scale with revenues.

The unlevered IRR calculation for the Project with and without Incentives are presented in the graphic below.

Sensitivity Analysis

BTMA reviewed how the Applicant's IRR would change if the Applicant realized either i) cost savings, or ii) lower than forecasted rents for the commercial buildings. We focus on these two items because we have identified these variables as having low confidence and high sensitivity. All other assumptions remain constant for the purpose of the sensitivity analysis.

A graph of the IRR's sensitivity to a reduction in construction costs is included on the following page. The graph corresponds to an incremental reduction in the Applicant's all inclusive development costs in the "without Incentive" scenario. A 20.00% reduction in construction costs would likely be the upper boundary for a possible reduction in costs and would align with the estimates from RSMeans. While the Applicant could experience a reduction in costs, it would take a significant reduction in costs to realize a return beyond the estimated market range.



Conclusion

BTMA determined that the proposed Project without the requested Incentive has a forecasted Return that is below the national average benchmark return and would likely fail to generate a sufficient return on investment. The extensive sitework necessary to remediate the blight and significant cost of public infrastructure are the major drivers of the need for the Incentive. The Project Return with the requested Incentive falls within the PwC range for multi-family developments and the national net lease market. We conclude that the Project is unlikely to proceed in the current market without the requested Incentive.

Appendix – Data Sources

CoStar Group

www.costar.com

CoStar Group (NASDAQ: CSGP) is a leading global provider of commercial and residential real estate information, analytics, and online marketplaces. Included in the S&P 500 Index and the NASDAQ 100, CoStar has provided data and information services for over 37 years to the commercial real estate market. The platform allows access to a comprehensive inventory of over 7 million properties, twenty million lease and sale comparables, and 8.3 million commercial tenants.

PwC Investor Survey

www.pwc.com

The PwC Investor Survey is a trusted source of research and investment criteria. For over 35 years, the PWC Investor Survey has provided data and insights for commercial real estate investors. The PwC Investor Survey includes regional and national data for investor expectations concerning commercial real estate and is published on a quarterly basis. Survey participants represent a cross-section of major institutional equity real estate investors who invest primarily in institutional-grade property. Survey results are intended to be interpreted as expectations and does not reflect actual property performance.

RS Means

www.rsmeans.com

Gordian is a leading provider of facility and construction cost data, software and services for all phases of the building lifecycle. A pioneer of Job Order Contracting (JOC), Gordian's offerings also include proprietary RSMeans Data and facility intelligence solutions. The RS Means square foot estimator uses a predictive pricing model based on national, regional, and local data for a variety of commercial real estate developments.