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7 September 2017

Ms Amy Connolly
Director, Department of City Development
City of Racine
City Hall, Room 102
730 Washington Avenue
Racine, Wisconsin 53403

RE: Regency Mall Repositioning

Dear Amy,
As we have discussed, this report considers only the initial Phase 1A and Phase 1B portions of the Regency Mall renovation/repositioning plan; the Developer (Hull Properties Group) has initial plans to stabilize the mall, and in future phases, will add additional tenants, as is more fully discussed below. The developer has requested a "pay-as-you-go" (PayGo) arrangement of up to $3,500,000 over the allowed 13 year period. Developer would receive 90% of the increment generated by the contemplated two phases of work. The mall is currently 22% vacant.

Included in our review was the following:

- Redevelopment Budget Analysis
- Current and projected tenant rent roll
- Estimated project net operating calculation and income approach valuation
- Proposed lease plan, overall site plan
- City summary information regarding proposed development

Phase 1A consists of a facelift of the existing mall building – raise the ceiling height, refresh the building façade, improve signage, etc. The estimated cost for this scope of work is $3,995,067. The expected incremental value to be provided from this work is $500,000, as the funds do not provide for revenue-producing uses.

Phase 1B totals $3,500,000, and projects co-investment incentive payments to two anchors of $500,000 each. These two anchor tenants are expected to contribute a like amount to refresh their stores and continue operations at Regency Mall. The remaining $2,500,000 is intended to cover the re-tenanting of approximately 20,000SF of small shop space. Since each tenant deal will have its unique terms and requirements, the budget is predicated on an average $80/SF to bring the relevant suites up to "white box" condition, and another $45/sf for tenant's buildout allowance. The term "white box" is generally described as four finished walls, floor covering, and usually a finished ceiling. The tenant improvement allowance will allow the tenant to make additional improvements specific to its store image and design.

The new 20,000SF of in-line space will take the place of about 16,000 SF of deliberately vacated tenants, which are deemed not suitable for the tenant mix that will reflect the new mall's identity. Developer has a deliberate plan on re-branding the mall in a new image, and tenancy will be designed to reflect that image. This would result in a net occupancy at around 78%, including anchors, in-line shops, and existing outlots.

Assuming Phases 1A and 1B are completed as discussed above, the real estate tax increment is expected to be approximately $66,400 when these phases are complete. It is contemplated that the Developer will receive 90% of said increment, in a PayGo structure over a period of up to 13 years. As noted in the opening paragraph, the maximum participation during that period is $3,500,000, which is loosely tied to the amount of the Phase 1A costs. However, given the lease-up projections discussed herein, the total that would be provided to Developer over that period would be slightly under $1,000,000. It would require roughly an additional $8,600,000 in increment value to fully cover the $3,500,000 potential municipal revenue sharing. Since the information provided only contemplates the first two phases of a multi-phase redevelopment, additional leasing must take place that is outside of this analysis. However, please see the following paragraph which expands on these comments.

There are additional plans to replace another 47,000sf of vacant space over several years in the future, either as junior anchor or small shop space, which would increase occupancy to approximately 88%; stabilized occupancy is considered to be achieved when the property reaches the mid-90% levels. Specific plans, and the means to fund these tenant spaces, have not been determined, which mostly depends on leasing activity and related construction costs and broker commissions required to install those tenants. Depending on the tenants procured at that time, the total improvements in new tenants introduced to Regency Mall since Developer's acquisition could be 67,000SF overall, at a related capital investment of $8,375,000, including the 20,000SF noted above, and netting the loss of the 16,000SF of tenants deemed outside of Developer's desired tenant mix. There are also four outparcels available for development/lease, which would add to the property value.

In this matter, we've incorporated the Developer's information into our financial models and evaluated the effect of incoming and departing tenants, the $7,495,000 costs incurred for Phases 1A and 1B, and the resultant returns based on the information provided. Assuming the City provides Developer with 90% participation in the increment generated, and assuming a sale at a 10% capitalization rate reflective of the risk for a formerly "dead mall," the 10 year IRR is calculated to be below 10%, which is well beneath traditional development returns of approximately 13-16% for a typical property of this type; repositioning such a property would command an even higher risk return than a stabilized asset. This would justify the but/for question for the project, as without such participation, the IRR would reduce to a level even lower than 9%.

Given the above information and considerations, we concur that the City's participation of 90% of the increment generated by the property would aid Developer in their efforts to reposition the mall, without unduly enriching them in the process. The PayGo structure does not require initial funding by the City, and compensates Developer for the value that is created.

Copies of our analyses are included with this report. We trust this provides you with the information needed to review this proposal, but please let me know if you need additional background or support in this matter.

Respectfully,

Frank Roman
Municipal Advisor

cc: Todd Taves