



August 25, 2017

Mrs. Amy Connolly
Director of City Development
City of Racine
730 Washington Avenue
Racine, WI 53403

Dear Amy –

I am pleased to submit this project summary letter outlining the proposed redevelopment of the Regency Mall. Hull Property Group (HPG) is excited to embark on the hard work needed to stabilize, transform and reposition this valuable community asset.

Project Description / Project Costs:

A multi-phased redevelopment of the Regency Mall is planned. Phase I of the project includes an interior common area renovation, exterior façade and entrance improvements and associated site work and landscaping. The Phase I projected costs are \$3,995,067. Proposed Phase II improvements include \$3,500,000 of new tenant buildouts and co-investments with existing anchor tenants. The Phase II capital expenditures help offer competitive lease terms for prospective tenants. Phase I and II anticipated capital improvements equal nearly \$7.5 million dollars.

Contemplated additional redevelopment includes the location of four restaurant outparcel developments as well as a 160-unit housing complex. Total contemplated additional capital improvements equal \$31,250,000.

It has been HPG's experience that Phase II and other contemplated development will not occur / cannot occur until the mall proper is stabilized. The viability of Regency Mall must first be demonstrated before tenants will risk an investment in and around the property.

Project Schedule:

Phase I improvements will begin in late Fall 2017 and be complete by Spring of 2018. It is anticipated that Phase II improvements will be completed by 2025.

Public Benefit:

The redevelopment of the Regency Mall is projected to stabilize the property and maintain ad valorem and sales tax collections from the property. Likewise, by stabilizing the largest property in the Racine Retail Corridor, ad valorem and sales tax collections from surrounding properties stand a better chance of not being negatively impacted. The Regency Mall, through its tenants, currently employs approximately 300 individuals. It is anticipated that the above described redevelopment plans will create an additional 250 jobs on the property.

Financing Method:

HPG will use private capital to fund one-hundred percent of the Regency Mall redevelopment.

Summary of Increment Projections:

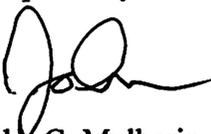
It is anticipated that Phase I investments of \$3,995,067 will produce an additional ad valorem value of only \$500,000 total—or approximately \$15,000 in new increment payments annually. Phase I investments are deemed “Sacrificial Investments” (not associated with a source of income) with the goal being to stabilize and transform the property. This Phase I work to orchestrate an overall aesthetic transformation of the mall only positions the property to be an attractive offering for future retail. Phase II investments of \$3,500,000 (new tenant buildouts and co-investment with anchor stores) should produce additional ad valorem value of approximately \$2,225,000 or \$69,075 in new increment payments annually. Combined, it is anticipated that the Phase I and II annual new increment payments from the TID will be approximately \$85,000.

“But For” Analysis:

HPG would not be making this large of an investment into Regency Mall but for the opportunity to recoup a minimal amount of its sacrificial investment. Based on the above-mentioned Phase I and II investments, and a projected annual increment payment of approximately \$85,000, the Internal Rate of Return for this 13-year TID agreement is -17%. By itself, this negative rate of return does not justify the investment HPG is making into the Regency Mall. However, it is in HPG’s best interest to improve the property, add value to the surrounding corridor and to solidify its franchise reputation as a mall redevelopment specialist.

Should you have any questions or need additional information, please do not hesitate to contact me.

Respectfully submitted,



John G. Mulherin
Vice President, Government Relations

Regency Mall Redevelopment Market Analysis

Market Analysis:

Racine is blessed with a relatively well-defined retail node (“Racine Retail Corridor”) containing many nationally-branded retailers. Retail concentration is a strength for any community as it enhances its reputation and ability to recruit additional retail. Notwithstanding, the Racine Retail Corridor has declined in recent years as a number of stores have left, and sales volumes from some of the remaining stores are eroding.

The Racine Retail Corridor consists of approximately 80 retailers, of which approximately 75% are nationally branded. The rough boundaries of the node are Regency Point Shopping Center and High Point Center to the north along Green Bay Drive and the Regency Mall and Mt. Pleasant Plaza to the south at the intersection of Green Bay Road and Durand Avenue. The node also extends west along Durand Avenue to include the Wal-Mart and Menards Shopping Center.

Troubling trends to be considered in ascertaining the future of the Racine Retail Corridor include the continued deterioration of the Regency Mall with its attendant loss of national tenants. As Racine’s only regionally enclosed mall and largest property, it can be argued that Regency Mall’s failure has a detrimental effect on the ad valorem and sales tax collections from the entire Racine Retail Corridor. The recent loss of H.H. Gregg (although replaced with Bob’s Discount Furniture), severely diminished sales at the property occupied by Target on Durand Avenue and the anticipated closing of other national stores are troubling signs of a Racine Retail Corridor in retreat. The closed Kmart store in the High Ridge Center and its off-the-road position, coupled with extreme small shop vacancy, make Home Depot vulnerable to relocation. The mostly vacant Mt. Pleasant Plaza on Durand Avenue is in jeopardy of becoming a down-market, deep discount shopping plaza. Additionally, competition in Oak Park and newer retail nodes in Kenosha and Pleasant Prairie have significant negative impacts on Racine’s retail node. In a classic North-South strategy, centrally placed Racine is being squeezed by retailers pulling away from the central location to the two boundary locations above and below (note Burlington and Target). That said, the Racine Retail Corridor remains a viable location for sustained and growing retail enterprises. The remaining concentrated national retail within the corridor can serve as a foundation on which to build additional competitive retail offering.

The redevelopment of the 76-acre Regency Mall property should be seen as a critical project for the stabilization of the area. The mall can serve as a high tide to lift all “boats” or its continued demise can act as millstone around the neck of the entire corridor. The shared interest of parties is best served when this key property prospers in a sustainable manner.

Hull Property Group:

Hull Property Group (HPG) purchased the Regency Mall in Racine, Wisconsin in December 2016. HPG is one of the largest, privately held, real-estate companies in the country with over fifteen-

million square feet of retail space located in thirteen States. The company owns 29 regionally enclosed malls and seventeen shopping centers.

As a privately held company, HPG has the ability to redevelop its owned properties based on an investment schedule not influenced by quarterly earnings statements or annual shareholder meetings. The company is not beholden to an artificially predefined investment horizon. Its investment strategy centers on adding value *over time* and allows the company to employ a counter-intuitive approach to redevelopment. HPG will make sacrificial investments – those not accompanied with a source of income – to orchestrate a new look, feel and perception for a subject property. This includes raising ceiling heights for additional volume of space, creating clear lines of sight by eliminating kiosks, installing new lighting and flooring and the covering of vacant shop space with sheetrock and inspirational / historical community murals. HPG is the only company currently making these type investments in C and D class properties.

HPG's redevelopment model calls for the stabilization, transformation and repositioning of failing mall properties. This requires the company to create a retail offering attractive to existing and new retailers. Most importantly, the company must be very disciplined as to the tenants it retains and solicits post-redevelopment. HPG has found it is best served by having fewer, high-quality tenants than focusing on high occupancy rates. This approach has proven to generate positive momentum as high-quality tenants attract other high-quality tenants.

HPG has never sold an enclosed mall property and therefore continually invests in its holdings. The company has completely redeveloped 18 of its 29 mall properties – each of which is thriving. Post redevelopment, these renovated properties enjoy increased year-over-year, same store sales averaging 13% and the addition of new stores.

Regency Mall:

Regency Mall currently has a total mall vacancy rate of 23.55% and a small shop vacancy rate of 39.81%. Retail industry followers note that a mall with total vacancy exceeding 20% and small shop vacancy exceeding 20% is classified as a “dead mall”. HPG anticipates as part of its programmatic approach to stabilize, transform and reposition the property, that it will eliminate approximately 27,000 sq ft of current small shop tenants who are not deemed suitable for post-redevelopment tenancy. Thus, small shop vacancy will grow to nearly 54% and the overall mall vacancy rate will grow to almost 30%. In addition, if you were to add the lease value of the national tenants who have chosen to vacate the property and the projected losses due to post redevelopment vacancy, the property will have suffered a loss on income exceeding half a million dollars. This level of vacancy and loss of income puts the mall in an absolutely unsustainable position unless otherwise redeveloped.

HPG seeks to enter into a Pay-as-you Go TID redevelopment agreement with the City of Racine and seeks no upfront financial assistance from the community. Rather, HPG will complete all redevelopment efforts using its own capital. The anticipated sacrificial cost (not accompanied with any income stream) of Phase I and Phase II redevelopment efforts is over \$7 million dollars. It has

been HPG's experience that until the subject property is stabilized and transformed, it will be extremely difficult to attract any additional investment via new tenants or outparcel development.

The 76-acre Regency Mall property, located at the intersection of Green Bay Road and Durand Avenue, consists of 463,342 sq ft of gross leasable area. The property is well-positioned in the community and anchors the Racine Retail Corridor. Once redeveloped, the property has the ability to attract additional retail as well as help stabilize the corridor.

Regency Mall is a good fit for HPG's redevelopment model. The company has no debt on the property, its operating model will reduce occupancy costs, a renovation will dramatically improve the property and there are enough remaining national tenants on which to center a redevelopment strategy. Additionally, if HPG were not able to come to terms with the City of Racine on a redevelopment TID Agreement, the property can be run economically for a period of time with no adverse economic impact to the company. If the property were to eventually fail, HPG would be in a position to repurpose the area due its superior location in the community / corridor.

Post Redevelopment:

Current Regency Mall sales are approximately \$37,000,000 annually and anticipated post-redevelopment sales are \$55,550,000 annually or an increase of 49.9%. This growth includes the addition of two 20,000 sq ft junior anchor stores, 27,000 sq ft of shop space tenants and four restaurant outparcel developments. Please see the attached Post Redevelopment Sales Increase Analysis for analysis specifics.

**Regency Mall TID # 20
Post Redevelopment
Sales Increase Analysis**

Current Tenant Sales

Anchors & Junior Anchors

Burlington Coat Factory
Dunham's
Bobs Discount Furniture
Planet Fitness

Anchor & Junior Anchor Sales 12,000,000

Projected Post Redevelopment Sales

Anchors & Junior Anchors

Burlington Coat Factory
Dunham's
Bobs Discount Furniture
Planet Fitness
Proposed 20,000 sq ft junior anchor 2,000,000
Proposed 20,000 sq ft junior anchor 2,000,000

Anchor & Junior Anchor Sales 17,200,000

Shops

A-1 Accessories
American Eagle
Ancient Horizons
Attitudes
Auntie Anne's
The B-12 Store
Bath & Body Works
Best Buy Mobile
Body 360
Boston Store
Brow Art 23
Champs Sports
Charlotte Russe
The Children's Place
CTM Group
CTM Group Carousel
Dr. Repair
ecoATM
Expedia Cash LLC
EZ Fit Alterations
Finish Line
Foot Locker
Foto Fantasy 1
Foto Fantasy 2
FYE
Gamestop
GNC
GNC Storage
Gourmet Coffee
Gymboree
Hot Topic

Shops

A-1 Accessories
American Eagle
Ancient Horizons
Attitudes
Auntie Anne's
Bath & Body Works
Best Buy Mobile
Boston Store
Champs Sports
Charlotte Russe
The Children's Place
Dr. Repair
Finish Line
Foot Locker
FYE
Gamestop
GNC
GNC Storage
Gourmet Coffee
Gymboree
Hot Topic
Jewel Time
Jimmy Jazz
Journey
Kay Jewelers
Kids Foot Locker
Kobe Japanese Restaurant
Lane Bryant
Lee Nails
Lenscrafters
Lids

**Regency Mall TID # 20
Post Redevelopment
Sales Increase Analysis**

Innovative Vending Solutions	
Jewel Time	
Jimmy Jazz	
Journey	
Kay Jewelers	
Kids Foot Locker	
Kobe Japanese Restaurant	
Lane Bryant	
Lee Nails	
Lenscrafters	
Lids	
Mini Melts	
Nail Art	
New Image Barbershop	
New Zoom	
On The Go	
Piercing Pagoda	
Protocol	
Racine Police Department	
Rainforest Relaxation	
Randal F Savaglio	
Rave PCS	
Rogers and Hollands Jewelers	
Rue21	
Selah Beauty & Fashion	
Spencers	
Sustainable Solutions Group	
Sweet Delights	
T-Mobile	
T-Shirt Express	
US Army Recruiting	
Victoria's Secret	
YWCA	
YWCA Storage	
Shop Sales	25,000,000

Nail Art	
Piercing Pagoda	
Racine Police Department	
Randal F Savaglio	
Rave PCS	
Rogers and Hollands Jewelers	
Rue21	
Spencers	
Sweet Delights	
T-Mobile	
US Army Recruiting	
Victoria's Secret	
YWCA	
YWCA Storage	
27,000 sq ft shop tenants @ \$150 sales PSF	4,050,000
Less Vacated Tenants	
<i>The B-12 Store</i>	
<i>Brow Art 23</i>	
<i>CTM Group</i>	
<i>CTM Group Carousel</i>	
<i>ecoATM</i>	
<i>Expedia Cash LLC</i>	
<i>EZ Fit Alterations</i>	
<i>Foto Fantasy 1</i>	
<i>Foto Fantasy 2</i>	
<i>Innovative Vending Solutions</i>	
<i>Mini Melts</i>	
<i>New Image Barbershop</i>	
<i>New Zoom</i>	
<i>On The Go</i>	
<i>Protocol</i>	
<i>Rainforest Relaxation</i>	
<i>Selah Beauty & Fashion</i>	
<i>Sustainable Solutions Group</i>	
<i>T-Shirt Express</i>	
Shop Sales	31,550,000

Racine Retail Corridor

