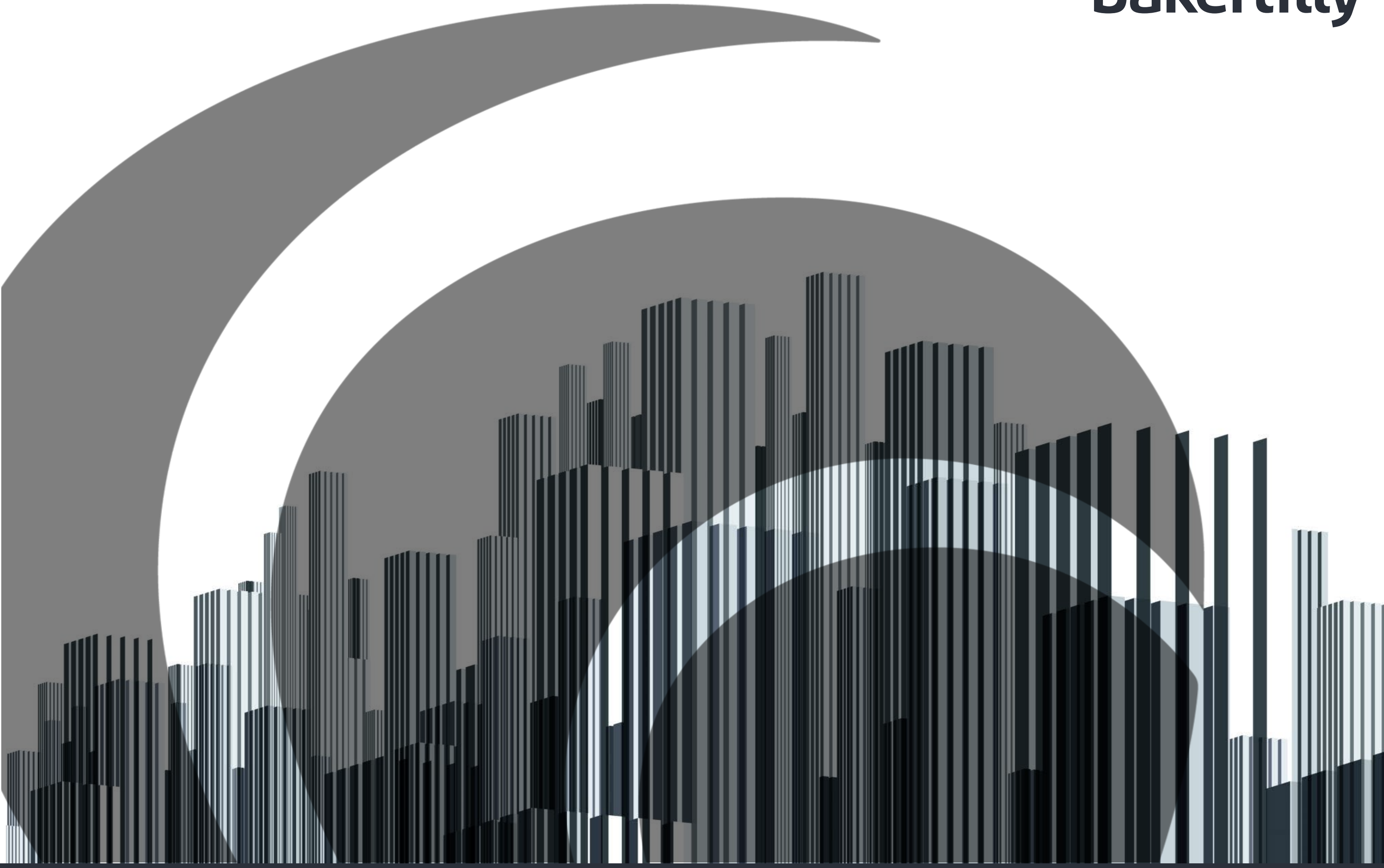

But-For Analysis

The Reserve Proposed Housing Development by Northridge Development

City of Grand Forks, North Dakota

Dated: July 14, 2025

Contents

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Executive Summary

The City of Grand Forks (the “City”) retained Baker Tilly Municipal Advisors (“BTMA”) to review a request for public financial assistance from Northridge Development (the “Applicant”). The Applicant has proposed the construction of a new multi-family housing development with 155 housing units that are a mix of studio, 1, 2, 3 and 4-bedroom units and approximately______ square feet in size. (the “Project”)

The Applicant has requested public financial assistance for the Project. Specifically, the Applicant is seeking an annual property tax exemption for up to 20 years, referred to as a PILOT (the “Incentive”). The City seeks to understand whether the Project reasonably requires the requested financial assistance. Prior to approving a property tax incentive and providing public assistance for a project, the City must make several findings, including the “but for” test which is to find: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future, therefore making tax increment financing public assistance necessary for the project to proceed. The Applicant has provided financial information demonstrating that the operating cash flow requires annual property tax exemption to decrease total operating expenses. Financial assistance through tax exemption will allow the projected revenues to support annual operating expenses and debt service, while providing a reasonable return on investment. The “but-for” test is used to determine whether a project is likely to proceed as proposed without public financial assistance.

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 falls below the national benchmark average. The graphic on the following page illustrates the forecasted IRR compared to the market benchmark returns from the PWC Real Estate Investor Survey, First Quarter 2025. It is important to note that the financial analysis includes a review of the Project with and without the requested Incentive, and provides sensitivity as to the level of recommended public assistance. Following additional analysis and discussion regarding a reasonable level of assistance, the developer has further refined the proforma and it is recommended that the initial request for a 20-year property tax exemption be reduced to a 15-year property tax exemption with a step-down approach as follows to result in a blended 77% exemption over the 15-year term:

- Years 1-5: 90% exemption
- Years 6-10: 80% exemption
- Years 11-15: 60% exemption

A summary of the Report's key points is also included below.

Project Description	*Support adding 155 market rate housing units in the City of Grand Forks*
Assistance Request	*A maximum 20-year term of property tax exemption (PILOT) - recommended reduced term of 15 years with blended 77% participation*
Project Cost Analysis	*Estimates are sensitive to financing asssumptions, including debt coverage, interest rates, capitalization rates and total project costs/funding sources*
Operating Revenues and Expenditures	*The Applicant's operating revenues and expenditures are considered reasonable with no proposed changes from BTMA*
Conclusion	*The Project would not proceed in the current market without the requested Incentive*

Purpose and Approach

BTMA evaluated Project information provided by the Applicant - including Project financing, timing, revenues and operating costs- 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 asset(s) 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 levered IRR, without assistance, is compared to the Return sought by investors for like projects in the current marketplace, as represented as a property tax exemption.

Unless stated otherwise, this Report references Incentive amounts in terms of net present value (NPV), rather than gross value. The Incentive gross value is simply the total amount of money expected to be received in the future, without considering how time affects its worth. The Incentive net present value recognizes that money today is worth more than the same amount in the future because of interest, inflation, or other investment opportunities. Depending on the structure of the Incentive, the benefits of the Incentive may be spread across multiple years; therefore, it is necessary to express the value of those future dollars in today's terms.

Disclosure and Reliance

This analysis is not an opinion of the Project's feasibility, including the likelihood the relevant trade area will absorb the Project during the development period forecast by the Applicant. Rather, BTMA was engaged to independently review the Applicant's assumptions for the Project and determine whether the Project would likely realize an acceptable market rate of return in the current marketplace. 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 predictive accuracy of this analysis, and nothing herein is, or shall be relied upon as, a representation or warranty with respect to future result.

BTMA has no financial interest in the Project, the Applicant, or any entities affiliated with the Project or the request for public incentives.

Background

The City of Grand Forks (the "City") has received a request for financial assistance from Northridge Development for the construction of a new 155-unit multifamily residential rental housing project with a mix of studio, 1, 2, 3 and 4-bedroom units and 155 underground and 180 surface parking spaces. The total estimated development cost is approximately $37 million. To support the application for public financial assistance, the developer has provided financial information including sources and uses of funds and operating proforma illustrating financial performance of the project both with and without financial incentives from the City of Grand Forks. The operating proforma is based on projected revenues from the residential components following construction, occupancy and stabilization.

Description of Assistance Request

The Applicant has requested public financial support through annual property tax exemption for up to 20 years to complete the project as proposed and be financially feasible. Analysis of the Applicant's operating proformas with and without assistance provides a range of projected returns to the investor and an understanding as to the need for assistance. Certain assumptions were made based upon information provided by the Applicant: Substantial changes to these assumptions would likely have an impact on analysis of the proposed project.

- debt and equity amounts
- lease rates for residential apartments
- vacancy rates
- annual revenue and operating expense inflators
- estimated project costs, including developer fee

The Applicant's upfront sources and uses statement and operating proformas with and without assistance incorporate certain assumptions relative to cash flow performance of the Project. They include private debt financing of approximately 70% with remaining 30% equity based on the $37 million project. The projected debt coverage ratio (DCR) is expected to meet minimum thresholds as required by the anticipated Project financing lender of 1.3x only with assistance. Property tax exemption as requested provides the cash flow necessary to achieve the minimum required DCR. A scaled down annual percentage exemption over 15 years still allows the minimum DCR to be met upon project stabilization as required to obtain financing and would be reduced as the annual DCR grows with future cash flow growth.

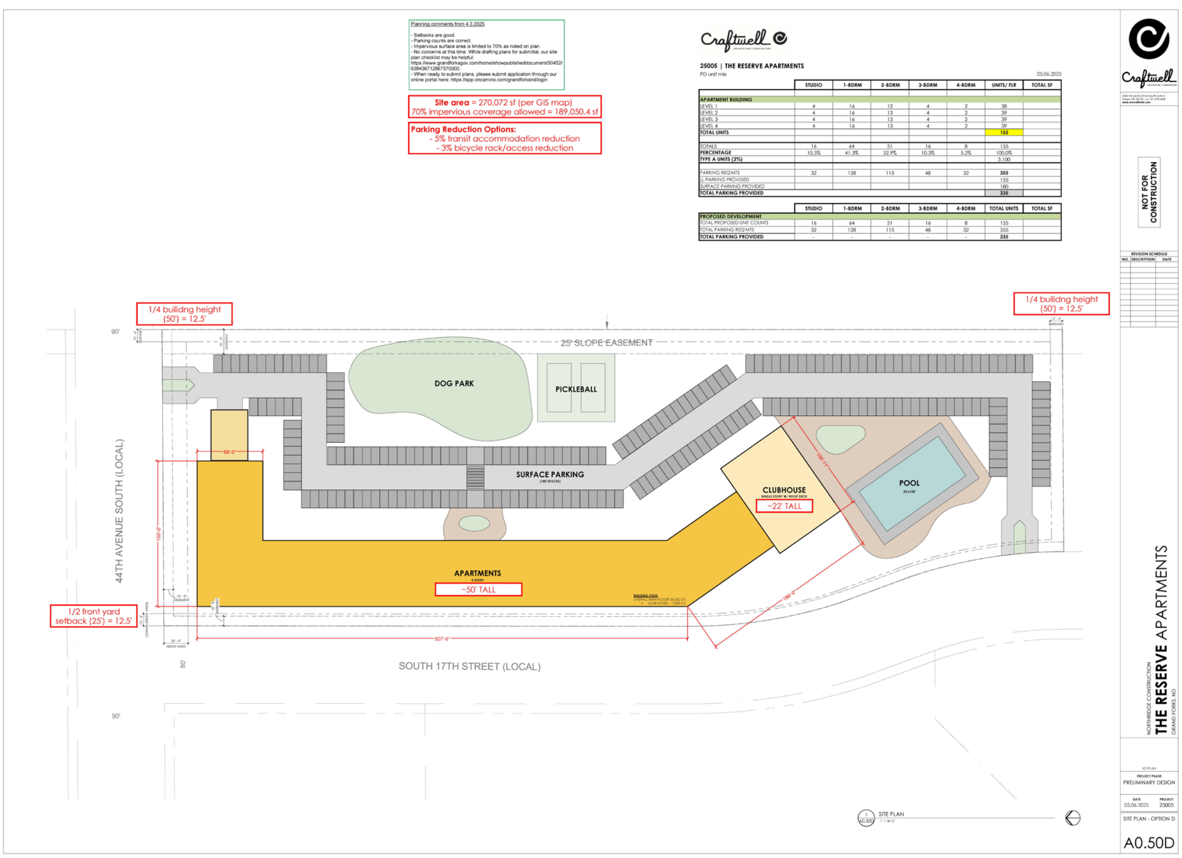
The Project

The Applicant has proposed a four story, 155-unit multifamily residential building on the corner of 44th Avenue South and South 17th Street. The Project will include 155 underground and 180 surface parking stalls to support the development tenants, as well as several amenities including a pool, clubhouse, pickleball court and dog park.

The Project will have a range of units between studio, 1, 2, 3 and 4 bedroom units with market rate rents. This translates to monthly gross rents ranging from $1,100 for studio, $1,219 for one bedroom, $1,716 for two bedroom, $2,100 for three bedroom and $2,430 for four bedroom apartments.

A site map of the existing lot and preliminary renderings of the development are provided below for reference.

Proposed Layout



Preliminary Rendering

THE RESERVE APARTMENTS

Craftwell
ARCHITECTURE + CONSTRUCTION

Total sources and uses for the Applicant's request are outlined in the following table. Note that the sources of financing include private debt and equity based on a ratio of 70%/30%, respectively. The anticipated lender provided a term sheet that includes $26 million, subject to the lesser of 75% of appraised value or cost and a projected DSC of 1.30x with 18-month construction and 5-year permanent financing terms. The permanent financing includes a 25-year amortization schedule with current interest rates of 6.53%.

Sources	Amount	% of Project Total	Status
First Mortgage	26,000,000	70%	Term sheet dated 5/6/25
Equity	11,000,000	30%	
Total	**$37,000,000**		
Uses	**Amount**	**% of Project Total**	**$ PSF**
Land Acquisition	1,600,000	4%	
Construction	32,000,000	86%	
Soft Costs	2,000,000	5%	
Fixtures, Furniture & Equipment	600,000	2%	
Construction Bank Fees	800,000	2%	
Total	**$37,000,000**		

Review of Project Costs and Uses

Construction Costs

The Applicant's estimated construction costs are approximately $32,000,000. To provide a cost comparison, BTMA utilizes the RSMeans Data from Gordian to estimate the cost of constructing a new multi-family development with similar characteristics to the proposed Project. RSMeans provides accurate and regularly updated construction cost estimates which can be used as a reference point to verify the reasonableness of the Applicant's estimated costs. PSF estimates can vary widely depending on the building material and type of framing used. Given that the Project is still in preliminary design stages, BTMA created three separate cost models. All models share the baseline assumptions of a building of similar square footage in size, 4 stories in height and each story approximately 10 feet tall. The PSF cost is estimated to range between $150.00 on the low end and $190.00 at the highest. Our midpoint estimate is around $170.00. The higher PSF estimates reflect additional costs associated with building materials such as brick veneer and reinforced concrete or steel framing which adds considerably to the cost. The Applicant's reported PSF falls within the observed range and is therefore considered reasonable.

Financing Assumptions

There are generally two ways in which assistance can be provided for most projects, either upfront or on a property tax exemption basis. With upfront financing, the City would finance a portion of the initial project costs through the issuance of bonds or as an internal loan. Future revenues would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With tax exemption, the developer would finance all project costs upfront and would receive an annual property tax exemption to provide additional cash flow to repay the private financing (debt and equity).

Tax exemption is generally more acceptable than upfront financing for the City because it shifts the risk to the developer. If the tax exemption is less than originally projected, the developer receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases property tax exemption may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of revenues. With internal financing, the City repays the loan with future revenue collections and may risk not repaying itself in full if revenues are not sufficient. There are security provisions that can be included with upfront financing that results in mitigating, reducing and limiting potential City risk.

The primary financing structure for the project has been requested and proposed as annual property tax exemption (PILOT) for the developer up to a certain period of time and annual exemption percentage

For the private financing component, the developer would finance all costs upfront through a combination of bank financing and equity and would receive annual property tax exemption to assist with project cash flow as needed to repay debt obligations and provide adequate investor returns. Estimated taxable value of the apartment building and land upon completion is $28 million with estimated annual total taxes of the incremental building portion is $445,000. The estimated taxable value of the land below the mixed-use building is $719,714 and estimated to increase to $1,000,000. The Applicant has estimated annual taxes of $12,375 based on existing land value. Only taxes generated by the new building may be included in the property tax exemption with taxes generated from the land as required to be paid.

Review of Applicant's Financial Model

The Applicant provided a pro forma and sizing model detailing timing, financing, operating revenues and expenditures and assumptions for the Project. Utilizing the baseline pro forma provided by the Applicant, BTMA calculated the internal rate of return with and without the requested Incentive. The Return realized by the Applicant is a result of the assumptions used in the creation of the operating pro forma and sizing model. Therefore, several steps must be taken to analyze the reasonableness of the assumptions used.

Step One – Evaluate Operating Revenues and Expenditures

Operating Revenues

The Applicant's expected unit mix and gross rents are as follows:

Market Rate Housing Units						
	# of Units	Sq. Feet	Monthly Rent	$ PSF	Total Monthly	Total Annual
Studio	16	550	$1,100	$2.00	$17,600	$211,200
1 BR	64	700	$1,218	$1.74	$77,952	$935,424
2 BR	51	1100	$1,716	$1.56	$87,516	$1,050,192
3 BR	16	1500	$2,100	$1.40	$33,600	$403,200
4 BR	8	1800	$2,430	$1.35	$19,440	$233,280
Total	**155**				**$236,108**	**$2,833,296**

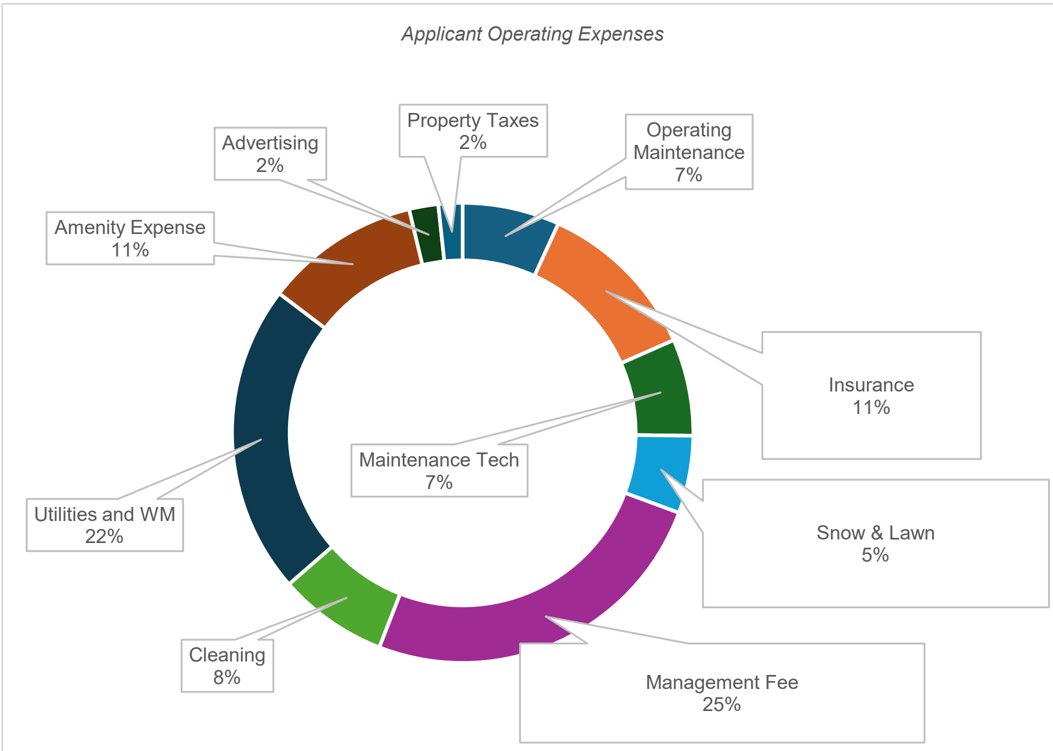
To evaluate the Applicant's rent and vacancy assumptions, BTMA compares the Applicant's estimates to market data available from CoStar. CoStar groups cities, villages, and towns by markets and submarkets. The Applicant also provided an initial market assessment for general occupancy rental housing in the City. Costar reports the historical and current key performance indicators for the Grand Forks submarket that can be used to compare to the projected performance of the Project.

When forecasting future vacancy rates and growth of rental rates, the Applicant assumed 5.00% for stabilized future vacancy rates which is slightly lower than the forecasted average vacancy of 5.9%. The Applicant has assumed annual growth trends for annual rent increases of 2% and operating expenses of 1%. The operating proforma with assistance and the property tax exemption includes a net operating income (NOI) of the Project that is available to support debt service payments and must meet minimum cash flow requirements to demonstrate a minimum debt coverage ratio (DCR) of 1.30 upon conversion to permanent financing as required by the potential lender terms.

The submarket historical average for rent growth has been approximately 1.2% with future forecasts from CoStar to be slightly higher at 2.7% annually. The Applicant's assumption for 2.0% growth is considered reasonable and no modification or adjustment is suggested.

Operating Expenditures

The Applicant's operating pro forma expenditures are summarized as follows.



Finally, the Applicant provided 6.58% for the term of the construction loan and a 6.53% permanent mortgage from Bremer Bank. According to Q1 of 2025 PWC survey, interest rates for the national apartment market currently range between 5.50% and 8.00%; therefore, the Applicant's interest rate assumptions are considered reasonable.

Step Two – Evaluate Hypothetical Sale Assumptions

The second step in analyzing the return to the Applicant is to determine the value of a hypothetical sale of the assets in the 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 assets 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.

It should be noted that BTMA generally evaluates requests with the hypothetical sale in years 10 and 15. For the purpose of providing a more comprehensive analysis, we provide the estimated IRR assuming the standard ten-year period along with a 15-year scenario based on the terms of the proposed property tax exemption.

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.

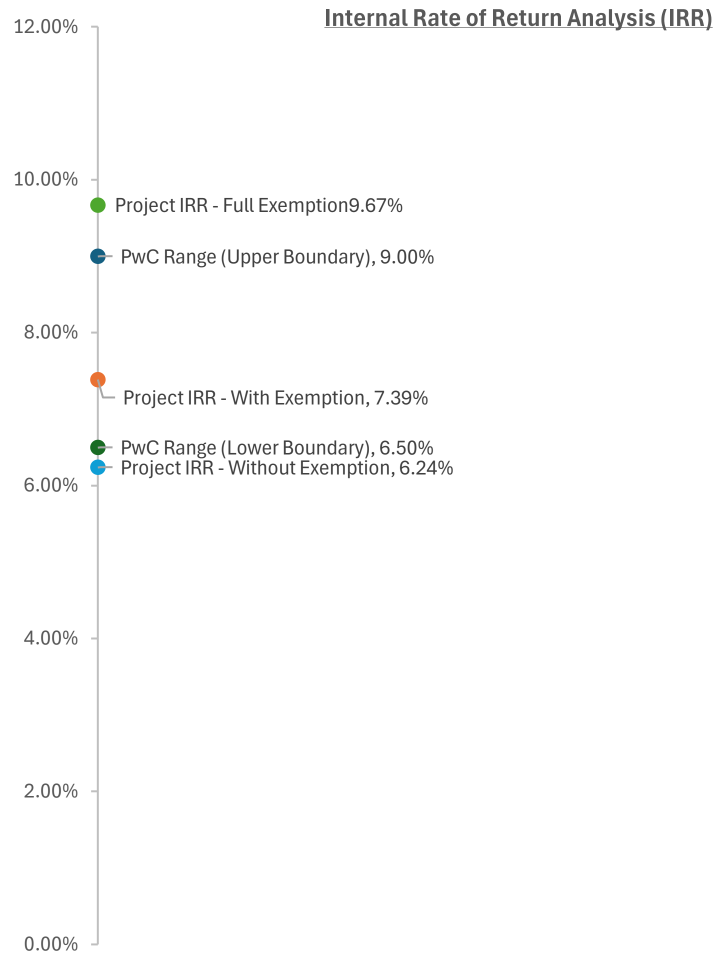
BTMA compared the forecasted Project Returns and evaluated the capitalization rates based on third-party reference, the *PwC Real Estate Investor Survey, First Quarter 2025*, a national survey which publishes data on the commercial real estate marketplace sampled from active investors. BTMA also compared the PWC Survey's cap rate to the Grand Forks submarket and the broader market for multifamily buildings.

The comparisons illustrate the difference in the distribution of cap rate data from CoStar specifically for 4 & 5-star buildings in the Grand Forks area compared to the overall distribution of cap rates in the area. We assumed this would likely be a "4 & 5-star building" as similar buildings tend to reflect luxury apartment buildings with upscale amenities and high-quality finishes.

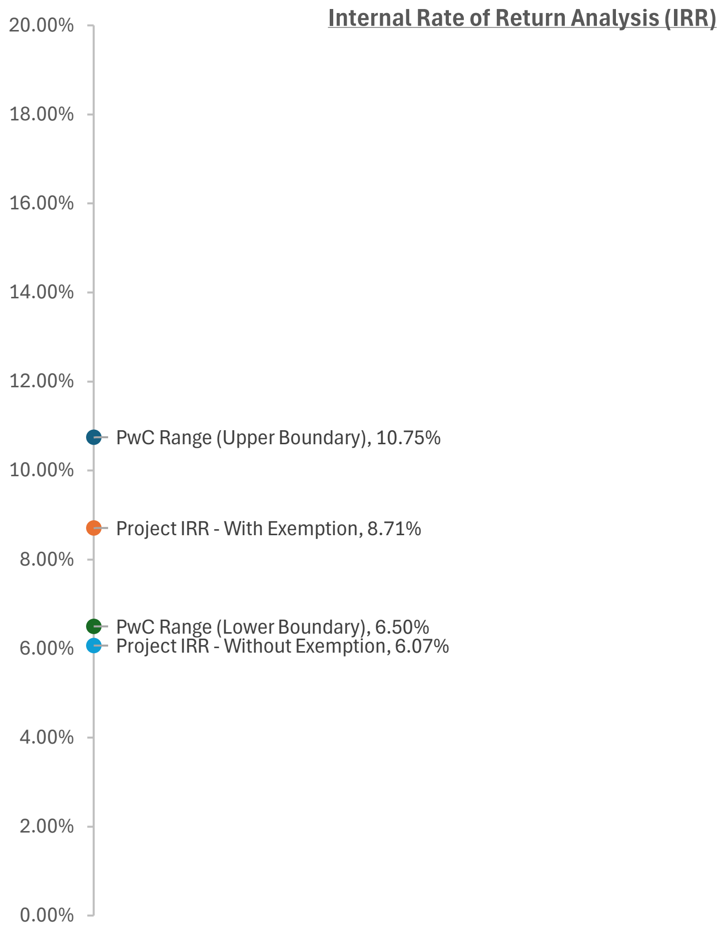
Capitalization rates in the Grand Forks area can also be compared to the surrounding submarkets with ranges between 6.5% and 8.5% since 2019. CoStar forecasts that cap rates for this particular submarket will remain somewhat elevated compared to surrounding areas well into 2029 at approximately 7.50%. According to the PWC Survey, capitalization rates for the national apartment market in Q1 of 2025 range between 4.00-6.25% with an average of 5.25%. it is the opinion of BTMA that a 6.5% cap rate would be an appropriate assumption for the terminal cap rate. Our assumption is based primarily on the elevated cap rates in the Grand Forks area compared to the national average.

Internal Rate of Return

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. A full pro forma with detailed cash flows is included in the Appendix of this Report. The following graph illustrates the estimated range of returns that investors are seeking in the multifamily asset class, according to the Q1, 2025 PWC Survey, compared to the estimated unlevered return. It is also important to note in the IRR calculations that without the Incentive, the cash flows are projected to be negative, meaning the Project without assistance would not be able to support the level of debt financing as projected. Decreasing the level of debt to a feasible amount supported by the cash flows to meet minimum DCR would require an increased equity investment amount, expected to result in a further reduced IRR than what is projected. In summary the projected IRRs as illustrated in the following table are expected to be further below the lower boundary minimum IRR levels. In addition, a full property tax exemption of 15 or 20 years is projected to result in an IRR that is above the upper boundary, further validating that assistance is needed for the project, but not supported at the initial requested level.



Typically, BTMA will evaluate the unlevered return to those reported in the *PWC Survey*. The "unlevered" return assumes that any debt used to finance the Project would be otherwise require an infusion of additional equity from the Applicant. Levered benchmarks are not readily available, but the benchmark unlevered returns from the *PWC Survey* can be converted to a levered return to provide an alternative benchmark. The following graph illustrates the Applicant's estimated levered return compared to the converted benchmark. Note that the Applicant's "without Incentive" return is estimated to be below than the lower boundary average. And similar results as described above relative to annual cash flow available to support minimum DCR requirements of 1.3x – meaning the estimated construction loan debt (and assumed permanent loan) amount would need to be reduced without a property tax exemption to meet the minimum DCR.



Conclusion

BTMA determined that the proposed Project without the requested incentive has a forecasted Return that is below the national average benchmark return, making it unlikely that the Project would be undertaken without the requested Incentive in the current market. The significant variables impacting the return are tied to the market's current elevated cost of capital (interest rates) and construction costs as compared to market supported rental rates.

BTMA's conclusions are based on the evaluation of the information provided by the Applicant and sensitized to a band of market ranges that approximate a reasonable range of the Applicant's expected terms of financing. The terms of financing, and therefore the returns contemplated in this analysis are preliminary and subject to change.

Appendix

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.

Appendix – Glossary of Terms

Basis Point	1/100th of a percentage point (0.01%)
Capitalization Rate (Cap Rate)	The relationship between a single year's net operating income expectancy and the market price or value. Also a useful measure of risk.
Development Land / Pad Sites	Land that has been purchased, readied for development (i.e. entitlements and infrastructure), and subsequently sold to builders.
Developer's Fee / Profit	A market-derived figure that reflects the amount a developer expects to receive for their contribution to a project and risk.
Discount Rate	Assumed rate of return used to discount future cash flows back to their present value.
Equity	Cash provided by the Developer for the Project or share of ownership.
Levered Return	The use of borrowed funds to increase the yield (return) that would otherwise be realized on an equity investment when there is no debt financing (see "Unlevered Return").
Management Fee	An expense representing the sum paid for or the value of management services, including incentives, expressed as a percentage of total revenue.
Net Lease	A lease in which the landlord passes all expenses on to the tenant. As an investment, an income-producing property leased, often for 20 years or longer, to a creditworthy tenant.
Net Operating Income (NOI)	Income remaining after deduction of all the property's operating expenses.
Operating Expenses	The ongoing expenditures incurred during the ordinary course of business necessary to maintain and continue the production of gross revenues, not including reserves, debt service, and capital costs.
Replacement Reserve	Amount allocated for periodic replacement of building components during a property's economic life.
Tenant Improvement Allowance	A dollar amount (usually expressed as an amount per square foot) provided to the tenant by the landlord for the construction of tenant improvements, which may or may not equal the cost of remodeling.
Unlevered Return	Assumes that a Project is financed and completed entirely with cash from the Developer and no debt. BTMA's preferred approach when estimating the internal rate of return.