

A stylized graphic of a city skyline composed of vertical bars of varying heights, overlaid on a background of three large, overlapping semi-circles in shades of gray.

But-For Analysis

Brookstone Affordable Housing Development

by Dakota Commercial

City of Grand Forks, North Dakota

Dated: October 27, 2025

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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 Dakota Commercial (the “Applicant”). The Applicant has proposed the construction of a new affordable 160-unit multi-family housing development with area median income (AMI) levels in the 30% - 60% range that will have studios, 1, 2 and 3-bedroom units (the “Project”).

The Applicant has requested public financial assistance for the Project. Specifically, the Applicant is seeking an annual property tax exemption of 90% 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 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, due to reduced revenues for the affordable housing units. Financial assistance through property tax exemption will allow the projected revenues to support annual operating expenses and debt service, while providing for the housing units to remain as affordable for residents with income levels at 30-60% area median income level. The “but-for” test is used to determine whether a project is likely to proceed as proposed without public financial assistance.

Generally, 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, an estimated IRR without Incentive is compared to a Return sought by investors in similar projects in the current marketplace. Another measurement that is used to analyze financial needs and is a measure of project feasibility is the Debt Coverage Ratio (DCR), which is a calculation detailing the ratio by which operating income exceeds the debt-service payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0 it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt. Typical lending standards will require a DCR of significantly greater than 1.0 as a measure of cushion in the event actual revenues and expenses are different than projected.






The Applicant’s operating proforma includes DCR that is greater than 1.0x with financial assistance, which is the minimum level of coverage required by lenders for this. Without property tax exemption, the DCR is projected to be type of project. The analysis illustrates that the project would not be able to financially feasible with the current financing structure as proposed by the Applicant. Additional discussion of the financial analysis is included within the report.

The Incentive as requested would provide property tax exemption that the Project will need to generate sufficient cash flow to support operating expenses and debt/loan repayment. The Project will be limited in annual rents it will collect due to the affordability of the rent levels for the qualifying tenants. Analysis has been prepared to compare the projected rents of the affordable housing building to a market rate building with higher rents to understand the financial gap and need for the Incentive. The reduced rents results in less revenues as required to support financing for the total development costs of the Project.

PURPOSE AND APPROACH

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 would not be feasible based on the proposed affordability of housing units and funding sources. 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. The term of the Incentive as an annual property tax exemption of 90% for a maximum 20 years will result in the requirement that 160 housing units are maintained as affordable over the term of the exemption.

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

 Project Description	<i>Support adding 160 affordable housing units at 30% - 60% area median income levels in the City</i>
 Assistance Request	<i>A maximum 20-year term of property tax exemption (PILOT) with 90% exemption, as linked to long term affordability of the housing project units</i>
 Project Cost Analysis	<i>Estimates are sensitive to financing assumptions, including debt coverage, interest rates, capitalization rates and total project costs/funding sources</i>
 Operating Revenues and Expenditures	<i>The Applicant's operating revenues and expenditures are considered reasonable with no proposed changes from BTMA</i>
 Conclusion	<i>The Project would not proceed in the current market without the requested Incentive</i>

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 Dakota Commercial for the construction of a new 160-unit multifamily affordable residential rental housing project with a mix of studio, 1, 2, and 3--bedroom units. The total estimated development cost is approximately \$45 million. To support the application for public financial assistance, the Applicant 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.

- funding sources
 - low-income housing tax credits
 - tax-exempt bonds
 - housing incentive fund
- lease rates for affordable 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. The projected debt coverage ratio (DCR) is expected to meet minimum thresholds as required with assistance. Property tax exemption as requested provides the cash flow necessary to achieve the minimum required DCR.

The Project

The Applicant has proposed a 160-unit multifamily affordable residential building. The Project will have a range of units between studio, 1, 2, and 3 bedrooms with income levels ranging between 30% - 60% area median income (AMI). This translates to monthly average gross rents ranging from \$951.42 for studio, \$1,019.83 for one bedroom, \$1,224.76 for two bedroom, and \$1,450.69 for three bedroom apartments.

The current funding structure as presented includes 4% and 9% tax credits. There are two project funding models for the 4% and 9% credits. The 4% credits support 120 housing units and 9% credits support 40 housing units. Total sources and uses of funds for the Applicant’s request are outlined in the following tables. Note that the sources of financing include tax exempt bond financing (TEB), low income housing tax credits (LIHTC), housing incentive fund and deferred developer fee. The TEB financing is 18 year term, 35 year amortization and interest rate of 5.75%.

120 units financed by 4% Tax Credits

Sources	Amount	% of Project Total
Housing Incentive Fund	5,376,053	19%
TEB Loan	13,925,000	42%
Deferred Developer Fee	4,200,000	13%
LIHTC	9,712,744	26%
Total	\$33,213,797	100%
Uses	Amount	% of Project Total
Land Acquisition	1,335,761	4%
Site Work	0	0%
Construction	22,325,072	67%
Professional Fees	450,000	1%
Construction Interim Fees	1,343,250	4%
Permanent Financing Fees	215,000	1%
Soft Costs	174,950	1%
Syndication Fees	15,000	0%
Developer Fee	6,600,000	20%
Reserves Capitalization	754,764	2%
Total	\$33,213,797	100%

40 units financed by 9% Tax Credits

Sources	Amount	% of Project Total
Housing Incentive Fund	100,000	1%
TEB Loan	0	0%
9% Loan	3,156,488	27%
Deferred Developer Fee	750,000	6%
LIHTC	7,813,179	66%
Total	\$11,819,667	100%
Uses	Amount	% of Project Total
Land Acquisition	445,254	4%
Site Work	0	0%
Construction	8,961,746	76%
Professional Fees	150,000	1%
Construction Interim Fees	533,500	4%
Permanent Financing Fees	92,500	1%
Soft Costs	60,804	1%
Syndication Fees	15,000	0%
Developer Fee	1,325,000	11%
Reserves Capitalization	235,864	2%
Total	\$11,819,667	100%

Review of Project Costs and Uses

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 Applicant 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 Applicant. If the tax exemption is less than originally projected, the Applicant 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 Applicant up to a certain period of time and annual exemption percentage. Estimated taxable value of the apartment building and land upon completion is \$26 million and PILOT based on 90% property tax exemption is \$62,057. The estimated taxable value of the land is \$10,000 and estimated to increase to \$1,300,000. The incremental building improvement value is estimated to be \$24,700,000. 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 for each funding structure that provides details on sources, project costs, timing for construction, financing assumptions, operating revenues and expenditures and general financial assumptions for the Project. Utilizing the baseline pro forma provided by the Applicant, BTMA calculated the projected financial metric returns with and without the requested Incentive. The projected returns of the Project are 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 for each respective funding structure are as follows:

120 units financed by 4% Tax Credits

Rents 40%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	5	646	630	0.98	3,150	37,800
1 BR / 1BA	7	764	670	0.88	4,690	56,280
2 BD / 1BA	4	1,088	778	0.72	3,112	37,344
2 BD / 2 BA	6	1,213	778	0.64	4,668	56,016
3 BD/ 2 BA	2	1,444	872	0.60	1,744	20,928
Total	24		17,683	0.76	17,364	208,368
Rents 50%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	5	646	812	1.26	4,060	48,720
1 BR / 1BA	3	764	866	1.13	2,598	31,176
2 BD / 1BA	5	1,088	1,013	0.93	5,065	60,780
2 BD / 2 BA	5	1,213	1,013	0.84	5,065	60,780
3 BD/ 2 BA	6	1,444	1,143	0.79	6,858	82,296
Total	24		17,683	0.99	23,646	283,752
Rents 06%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	4	646	995	1.54	3,980	47,760
1 BR / 1BA	4	764	1,062	1.39	4,248	50,976
2 BD / 1BA	14	1,088	1,248	1.15	17,472	209,664
2 BD / 2 BA	30	1,213	1,248	1.03	37,440	449,280
3 BD/ 2 BA	20	1,444	1,415	0.98	28,300	339,600
Total	72		17,683	1.22	91,440	1,097,280
Parking					1,600	19,200
Other					8,211	98,532
Total	120		53,049		142,261	1,707,132
Vacancy	5%				(6,623)	(85,357)
					135,639	1,621,775

REVIEW OF APPLICANT'S FINANCIAL MODEL

40 units financed by 9% Tax Credits

Rents 30%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	2	646	447	0.69	894	10,728
1 BR / 1BA	2	764	474	0.62	948	11,376
2 BD / 1BA	1	1,088	543	0.50	543	6,516
2 BD / 2 BA	2	1,213	543	0.45	1,086	13,032
3 BD/ 2 BA	1	1,444	600	0.42	600	7,200
Total	8		17,683	0.53	4,071	48,852
Rents 40%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	2	646	630	0.98	1,260	15,120
1 BR / 1BA	2	764	670	0.88	1,340	16,080
2 BD / 1BA	1	1,088	778	0.72	778	9,336
2 BD / 2 BA	2	1,213	778	0.64	1,556	18,672
3 BD/ 2 BA	1	1,444	872	0.60	872	10,464
Total	8		17,683	0.76	5,806	69,672
Rents 50%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	-	646	-	-	-	-
1 BR / 1BA	-	764	-	-	-	-
2 BD / 1BA	2	1,088	1,013	0.93	2,026	24,312
2 BD / 2 BA	3	1,213	1,013	0.84	3,039	36,468
3 BD/ 2 BA	3	1,444	1,143	0.79	3,429	41,148
Total	8		17,683	0.51	8,494	101,928
Rents 60%	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Per Month	Annual
Eff/Studio	4	646	995	1.54	3,980	47,760
1 BR / 1BA	4	764	1,062	1.39	4,248	50,976
2 BD / 1BA	5	1,088	1,248	1.15	6,240	74,880
2 BD / 2 BA	-	1,213	1,248	1.03	-	-
3 BD/ 2 BA	3	1,444	1,415	0.98	4,245	50,940
Total	16		17,683	1.22	18,713	224,556
Parking					3,600	43,200
Other					2,737	32,844
Total	32		53,049		34,927	521,052
Vacancy	5%				(1,430)	(26,053)
					33,498	494,999

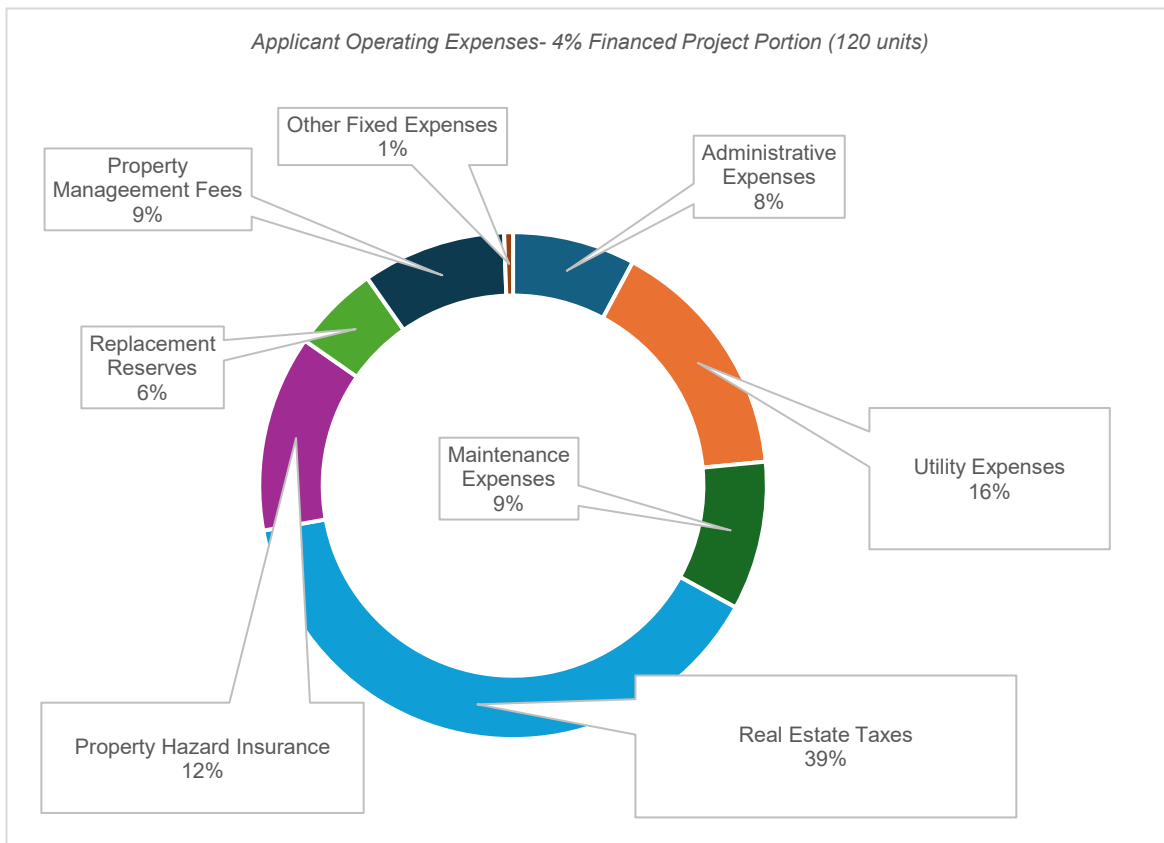
When forecasting future vacancy rates and growth of rental rates, the Applicant assumed 5.00% for stabilized future vacancy rates which is slightly lower than the forecasted average vacancy rate of 5.9% but generally accepted annual vacancy rate for multifamily housing projects. The Applicant has assumed annual growth trends for annual rent increases of 2% and operating expenses of 3%. Escalating operating expenses at a rate greater than annual rents will likely result in reduced cash flow over the review period of up to 20 years based on the request for the property tax exemption. However, the Project structured as affordable will be limited in the annual rents that can be charged to residents and more probable scenario. Annual rent increases of 2% and operating expenses of 3% are also generally accepted underwriting criteria for affordable housing projects. The operating proformas with assistance through the property tax exemption includes a net operating income (NOI) of the Project that is available to support debt service and loan payments, respectively for the financing structures, and must meet minimum cash flow requirements to demonstrate a minimum debt coverage ratio (DCR). DCR as modeled in the proformas are the minimum requirements to achieve funding. Without the property tax exemption, the annual NOI would be significantly below 1.0x and the level of financing required to fund the project would not be achievable, resulting in a significant funding gap to the project.

REVIEW OF APPLICANT'S FINANCIAL MODEL

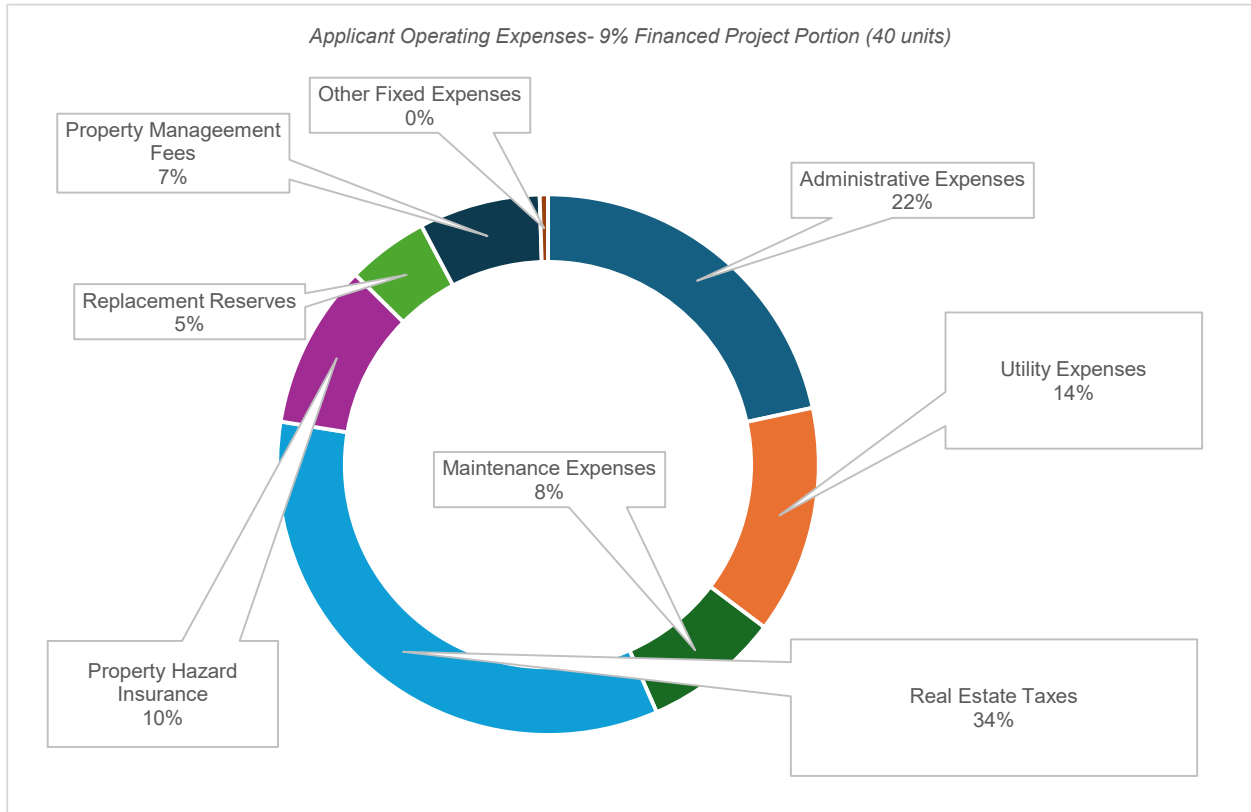
The submarket historical average for rent growth has been approximately 1.2% with future forecasts from CoStar to be slightly higher at 2.7% annually. The Applicant's assumption for 2.0% growth is considered reasonable and no modification or adjustment is suggested especially when reviewing as an affordable housing project where there are expected to be annual rent increase limits, subject to tenant income levels and annual affordability rent limits.

Operating Expenditures

Finally, the Applicant provided the operating expenses for both the 4% and 9% projects, including the estimated taxes without a property tax exemption. Summaries of the respective operating expenses are provided below.



The proposed debt financing for the 4% project includes a construction loan of \$21,648,493 with interest rate of 6.5%. The total permanent project financing includes a housing incentive fund loan of \$5,376, 053 and TEB loan of \$13,925,000 with 5.75% interest rate. The DCR is projected to be 1.10x with the property tax exemption in the first stabilized year and 0.79x without the property tax exemption.



The proposed debt financing for the 9% project includes a construction loan of \$8,387,034 with interest rate of 6.5%. The total permanent project financing includes a housing incentive fund loan of \$100,000 and 9% loan of \$3,156,488 with 6.75% interest rate. The DCR is projected to be 1.04x with the property tax exemption in the first stabilized year and 0.64x without the property tax exemption.

Financial Needs Analysis

Upon approval of a TIF project, the City must make several findings, including the “but for” test: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. The Applicant has stated the assistance is necessary due to the construction of affordable housing and inability of the project to support those costs upon completion. The current estimated project costs are in excess of the estimated future value of the building upon development. Based on the Applicant’s stated position relative to the need for tax increment financing assistance, the City could make its “but for” finding and provide tax increment assistance.

The City may also consider an appropriate level and type of TIF assistance for the project based on the information submitted by the Applicant. The City’s position relative to the use of tax increment has typically been to finance extraordinary costs and the level of assistance is in part dictated by the ‘extraordinary’ costs

FINANCIAL NEEDS ANALYSIS

of the project – for this project, supporting the construction and long-term maintenance of affordable housing units. The current request is for a 20-year 90% property tax exemption.

Following thorough evaluation of the project as provided allows the City to be prepared to make an informed “but-for” decision based on the likelihood of the project needing assistance, as well as the appropriate level of assistance. To complete this analysis, we reviewed the Applicant’s provided operating proforma and constructed similar twenty-year project proformas, showing a result if the Applicant received the assistance and showing a result if the Applicant did not receive assistance. Our analysis of the proformas included a review of the development budget, projected operating revenues and expenditures, and the project’s capacity to support annual debt service on outstanding debt. The purpose of evaluating the operating proformas is to understand the potential performance of the project through initial development and completion (stabilization) and the operation of the enterprise over a 10-year period.

A measure of project feasibility is the Debt Coverage Ratio (DCR), which is a calculation detailing the ratio by which operating income exceeds the debt-service payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0 it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt. Typical lending standards will require a DCR of significantly greater than 1.0 as a measure of cushion in the event actual revenues and expenses are different than projected. The Applicant’s operating proforma includes a 1.10x and 1.04x DCR, which is the minimum level of coverage required by lenders for this type of project. It also illustrates that the project would not be able to support additional debt as a potential means of reducing the financing gap or attracting additional funding sources to the project.

To further test the need for assistance, we prepared an analysis that estimates the total reduced income resulting from the units restricted for occupants at 30%, 40%, 50% and 60% area median income levels. To calculate the annual gap in rental income, we calculated the difference in revenues collected from market rate units (utilizing market rate rents from comparable projects), as adjusted by bedrooms (studio, 1, 2 and 3-bedroom units) to those units restricted to affordability levels at 30%, 40%, 50% and 60%. The table below provides a summary of the estimated gap per unit by bedroom count with the corresponding monthly and annual gaps.

CONCLUSION

Type of Units	AMI	SF/Unit	Rent/SF	Rent	Market Rent	Gap per Unit	Number of Units	Monthly Gap	Annual Gap
Eff/Studio	30%	646	\$ 0.69	447	1,100	(653)	2	(1,306)	(15,672)
Eff/Studio	40%	646	\$ 0.98	630	1,100	(470)	7	(3,290)	(39,480)
Eff/Studio	50%	646	\$ -	-	1,100	(1,100)	5	(5,500)	(66,000)
Eff/Studio	60%	646	\$ 1.54	995	1,100	(105)	8	(840)	(10,080)
1 BR / 1BA	30%	764	\$ 0.62	474	1,218	(744)	2	(1,488)	(17,856)
1 BR / 1BA	40%	764	\$ 0.88	670	1,218	(548)	9	(4,932)	(59,184)
1 BR / 1BA	50%	764	\$ -	-	1,218	(1,218)	3	(3,654)	(43,848)
1 BR / 1BA	60%	764	\$ 1.39	1,062	1,218	(156)	8	(1,248)	(14,976)
2 BD / 1BA	30%	1,088	\$ 0.50	543	1,716	(1,173)	1	(1,173)	(14,076)
2 BD / 1BA	40%	1,088	\$ 0.72	778	1,716	(938)	5	(4,690)	(56,280)
2 BD / 1BA	50%	1,088	\$ 0.93	1,013	1,716	(703)	7	(4,921)	(59,052)
2 BD / 1BA	60%	1,088	\$ 1.15	1,248	1,716	(468)	19	(8,892)	(106,704)
2 BD / 2 BA	30%	1,213	\$ 0.45	543	1,716	(1,173)	2	(2,346)	(28,152)
2 BD / 2 BA	40%	1,213	\$ 0.64	778	1,716	(938)	8	(7,504)	(90,048)
2 BD / 2 BA	50%	1,213	\$ 0.84	1,013	1,716	(703)	8	(5,624)	(67,488)
2 BD / 2 BA	60%	1,213	\$ 1.03	1,248	1,716	(468)	30	(14,040)	(168,480)
3 BD / 2 BA	30%	1,444	\$ 0.42	600	2,100	(1,500)	1	(1,500)	(18,000)
3 BD / 2 BA	40%	1,444	\$ 0.60	872	2,100	(1,228)	3	(3,684)	(44,208)
3 BD / 2 BA	50%	1,444	\$ 0.79	1,143	2,100	(957)	9	(8,613)	(103,356)
3 BD / 2 BA	60%	1,444	\$ 0.98	1,415	2,100	(685)	23	(15,755)	(189,060)
Total							160	(101,000)	(1,212,000)

The estimated annual gap for all 160 affordable units (as adjusted for income levels) is estimated to be \$1,212,000. An affordable housing project requires several funding sources, including tax credits, to be financially feasible. A property tax exemption provides further assistance as it results in cash flow savings as needed to support debt service and loan payments.

Conclusion

BTMA determined that the proposed Project without the requested incentive would not be feasible based on the proposal to construct 160 affordable housing units at income levels of 30%, 40%, 50% and 60%. The results indicate it is unlikely that the Project will be undertaken without the requested Incentive in the current market. The significant variables impacting the analysis are tied to the market's current elevated cost of capital (interest rates) and construction costs as compared to market supported rental rates. Providing a property tax exemption to assist with supporting an affordable housing project will result in long-term affordability of 160 housing units. The Applicant's financing will require the units maintain affordability through the term of funding and coincides with the property tax exemption.

BTMA's conclusions are based on the evaluation of the information provided by the Applicant and sensitized to a band of varied assumptions that may impact 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.