

## **BLOCK 100 FOUNDATION PROJECT - ECONOMIC ANALYSIS**

From an economic standpoint, the Project is unique. It is not being undertaken for traditional commercial development reasons or with a profit motive in mind, nor is it likely that a profit-driven developer would or could undertake the redevelopment of this site. This Project is about improving our City and in the process, creating an additional philanthropic vehicle to help support an important civic asset, Overture Center for the Arts. Accordingly, some of the standard economic analyses don't apply as it would be nearly impossible to replicate the project using a conventional development model. The major element is the fact that the Project is being developed without bank financing. In other words, there is no debt to service, and therefore, none of the estimated development cost of \$10 million will have to be repaid from income generated by the Project. In addition, unlike a traditional real estate development scenario, there is no expectation that the cash flow from the property will be used to provide a market rate of return on the equity invested in the development. Nor is there any City financial assistance involved in this Project, thus leaving limited City resources available for other projects.

Without debt service or the need to provide a return on equity to investors, the Project's ability to generate positive cash flows is significantly enhanced. Further, should there be a longer initial lease-up period or if market conditions affect the rents that are achievable, there is the ability to make the best longer-term decisions in regards to the tenant mix in the Project. Additionally, the acquisition prices for the properties making up the Project become irrelevant in this equation. There isn't any acquisition cost being carried by the development from an operating pro-forma standpoint and the acquisition costs don't drive up the top line revenue needed to achieve positive cash flow. All of these factors add up to a unique opportunity for the City to capture a very high quality real estate development with significant additional public benefits. There is no feasible way to accomplish this Project using a conventional real estate development model.

**Operating Pro-Forma:** The average annual rental rate for the Project is projected at \$19.72, assuming \$27 per square foot triple net rent for the retail space and \$19 to \$20 per square foot gross rent for the office spaces. These rents are assumed to be market rates. Assuming a vacancy allowance of 7%, effective annual gross income should be approximately \$635,000. Total annual operating expenses are estimated at approximately \$7.50 per square foot which yields a stabilized annual net operating income of approximately \$390,000. The net operating income is then available for replacement reserves, funding tenant improvements, leasing costs and distributions by the non-profit Block 100 Foundation to Overture Center.

**Operational Efficiencies:** The Project will change the above grade occupancies from seven apartments and 14,926 gross square feet of office to all office usage in the approximate amount of 22,110 gross square feet. This change in use has a positive impact on the top line revenue of approximately 30%. Further, operation costs are reduced because of the ability to have more streamlined management, maintenance and leasing costs for office space alone versus a mix of housing and office.

**Property Valuation:** The 2011 combined assessed value for the six properties comprising the Project, as established by the City Assessor, is \$3.842 million. Utilizing the stabilized net operating income and an 8.0% capitalization rate, an anticipated valuation for these properties after completion would rise to approximately \$4.9 million. The property will remain on the tax roll and all the property taxes will continue flow to the taxing jurisdictions since there isn't any TIF assistance involved. Ultimately, it will be City Assessor's responsibility to determine the assessed property values.

The 2010 property taxes on the six properties were \$85,023. Based on the expected assessed property values of \$4.9 million, the development should generate approximately \$110,000 in property taxes when completed. The City portion of the property taxes was approximately \$34,000 in 2010 and is expected to be about \$44,000 when the project is completed.

A rising tide lifts all ships. A reinvestment of this scale will encourage other owners, developers and business owners to also invest, creating a more attractive and inviting neighborhood. A further intangible is the project will make the potential State museum complex site across Mifflin Street a more desirable location for the State of Wisconsin to locate this significant project.

**Projected Employment:** The completed Project will house additional businesses that will increase jobs, add to the tax base and add more day time users for State Street area stores and restaurants. When completed and occupied, the restaurant, retail stores and offices will employ approximately 125 people. The Project expects to employ approximately 75 construction workers. In addition to these figures, numerous businesses and design team consultants in Madison will be involved throughout the project.

**Overture Center of the Arts Endowment:** A key element of the Project has been the desire of the Frautschis to ensure that the net operating income from the project is used for the long term support of Overture Center for the Arts. Using Block 100 Foundation as the platform, their concurrent investment in the block through the Pleasant T. Rowland Foundation and the W. Jerome Frautschi Foundation achieves a tremendous reinvestment in the future of Madison's central business district and serves as a philanthropic gift for an important civic institution, Overture Center for the Arts. Using a conservative assumption that \$200,000 of the projected annual stabilized net operating income of \$390,000 (as presented above) will be available each year, this annual gift is the equivalent of Overture Center having to raise a \$4.0 million endowment (\$4.0 million X 5% annual draw = \$200,000 per year). If the annual gift reaches \$300,000, the equivalent endowment that would be needed for this level of support would be \$6.0 million. This is a very significant economic benefit of the Project and comes with no corresponding assumption of risk for the performance of the Project.



## USES & AREAS (GROSS SQUARE FEET)

The Project site area is 13,468 gross square feet or 0.31 acres.

This table illustrates existing and proposed uses and areas.

Address	Parcel (GSF)	Existing Use	Existing (GSF)	Proposed Use	Proposed (GSF)
<b>127-129 State Street (Francis Vallender Building)</b>					
Basement	810	Storage / Mechanical	740	N/A	0
First Floor (State Street Elevation)		Retail	755	Retail	765
Second Floor		Residential	740	Office	765
Third Floor		Residential	740	N/A	0
<b>125 State Street (Castle &amp; Doyle Building)</b>					
Basement	998	Storage / Mechanical	200	N//A	0
First Floor (State Street Elevation)		Retail	998	Retail	998
Second Floor		Residential	998	Office	998
<b>121-123 State Street (Buell Building)</b>					
Basement	2663	Laundry / Stor. / Mech.	2663	Storage / Mechanical	2620
First Floor (State Street Elevation)		Retail	2550	Retail	2486
Second Floor		Residential	2663	Office	2541
Third Floor		Residential	2663	Office	2485
Fourth Floor			0	Office	2087
<b>117-119 State Street (Haswell Furniture Building)</b>					
Basement	4614	Kitchen / Stor. / Mech.	4580	Storage / Mechanical	3562
First Floor (State Street Elevation)		Retail (Restaurant)	4503	Retail (Restaurant)	3773
Second Floor		Retail (Restaurant)	3195	Office	3952
Third Floor		Retail	4581	Office	3951
Fourth Floor		Office	4581	Office	3951
<b>120 West Mifflin Street (Schubert Building)</b>					
Basement	1443	Storage / Mechanical	1238	Storage / Mechanical	85
First Floor		Retail	1258	Retail (Restaurant)	1380
Second Floor		Residential	1258	Office	1380
<b>122 West Mifflin Street</b>					
Basement	2940	Storage / Mechanical	2882	N/A	0
First Floor (Street Level)		Office	2882	N/A	0
Second Floor		Office	2882	N/A	0
<b>Total (Gross Square Feet)</b>		<b>13,468</b>			
			<b>49,550</b>		<b>37,779</b>
<b>SUMMARY</b>					
	Difference				
Basement	(6,036)		12,303		6,267
First Floor	(3,544)		12,946		9,402
Second Floor	(2,100)		11,736		9,636
Third Floor	(1,548)		7,984		6,436
Fourth Floor	1,457		4,581		6,038

The existing businesses have either already relocated to new spaces or will do so by the end of the first quarter of 2012. None of the apartments are occupied at the present time.

The character, scale and rhythm of State Street will remain in the new development allowing the 100 Block of State Street to function in much the same way as it does today. Small scale retail shops are proposed along State Street that provide an opportunity for local retailers to have unique shops with unique identities along the sidewalk. The scale and square