From:	Paul Molinaro
To:	Rolfs, Daniel; Mikolajewski, Matthew
Cc:	Joe Schwenker
Subject:	Truman Olson
Date:	Thursday, March 07, 2019 7:06:05 AM

Dan & Matt,

We do appreciate all of the work that staff and the selection committee has put into this potential project to date. We are hopeful we can work something out that is mutually beneficial. Based on the meeting last night we need some additional information/discussion from the city. For starters:

Road

1. Our proposal assumed a shovel ready site as stated in the RFP. A shovel ready site would include all infrastructure necessary to build on the site - roads, utilities to lot line, etc. Thus our proposal assumed the road was being paid for by the seller out of the sale proceeds. We understand it is an assessable cost but in our experience any special assessments for work incurred or contemplated prior to the date of purchase agreement would be paid for by the seller at or before closing. Please advise on responsible party and potential cost. We ran up against this when we were selling John McKenzie a lot in Silicon Prairie and were told it is an ordinance/statute(not sure exactly) that roads need be constructed prior to or in conjunction with selling an improved lot.
2. The meeting last night was the first mention that city engineering can provide a road elevation and layout. We understand some of this is dependent on development of adjacent parcels but we have been asking for this information since before the RFP was sent out so we could get more detailed civil budgeting. Could you please provide this?
3. Our assumption is that utilities including sanitary will be extended through the new street. Can you confirm?

Housing Orientation

1. As presented last night we have concern with rotating the housing as suggested. Once rotated the northern side of the property would face the street and Dean/SSM's parking field. In the future this may change to a parking structure or building – neither in our opinion would offer better views. The southern side would face grade level parking that would serve the housing. This parking is currently to the east of the project but would need to be rotated with a new building orientation.
2. We are ok with looking at rotating the building but wanted to raise this concern so we don't have the same objection come up in the future when the new views are more evident. Can you confirm with planning staff?

Economics

1. We are willing to talk through this. We have some concerns with the IRR calculation and the amount of risk that puts on the developer for the potential return. Nearly all of the anticipated 10% IRR as shown is hinged upon a reversion value.
2. This reversion value assumes that the lease is extended at the same rate with no improvements. If the store is unsuccessful and does not renew then the reversion value

would be significantly lower. This could wipe out any return. Further, if we have to find a new tenant there would be additional leasing/improvement costs and discussion on rate.

3. If the tenant does renew there is likely some relatively significant cost of improvements as with any typical long term renewal and potentially discussion on rate. Both of these would need to be considered in the reversion value.
4. If we want to make a reversion value assumption at the end of the lease it should be calculated with a weighted approach assuming both a lease extension and a vacancy.
5. Typically an IRR is only run out 10 years. We may want to look at this. We are proposing a 15 year lease so if we assume a reversion in year 10 we still have some lease term left. Does it make sense to look at this?
6. The IRR calculation should include a vacancy/credit loss reduction, management fee, reserve, etc. We provided a very optimistic proforma that did not account for this and we understand you used our numbers.
7. We fully believe if the reasonable assumptions above are included in the thought process the IRR will change in a way that shows a gap.
8. Land write down – can you share the appraisal with me. I am curious if this appraisal is based on the entire site or if it assumes some of the site would be dedicated for ROW. If the appraisal does not show this ROW dedication there needs to be some consideration that the appraised value of the land/land write down assumption should be reduced proportionately. We estimate this reduces the land area by approximately 0.37 acres or 10%.
9. TIF Run – are you available to share the TIF analysis? I don't really have comments on this just want to move fully understand how this is calculated. Also, it will show assumption on RE taxes that we can share with the grocer.

Grocery Design

1. The major sticking point right now with the city, grocery store and Welton is the economics of the grocery store. We all know this is a low margin business so economics are crucial.
2. I will preface this next comment that our current plan and budget have a 2 story tall façade; however, I am trying to think of all possible ways to accomplish this development so a grocery store can remain in the neighborhood. It was mentioned that the UDD allows special case exceptions. To save on costs would the city considering allowing a reduction in height as a special case. I don't have a value on this yet but will be talking to our GC to see if this could have any material impact.
3. If #2 is not an option would the city grant an exception for the 2 story space within the store? The mezzanine is going to add $300,000+ to an already tight project. Again, just trying to think of all potential options.

Development Team

1. Can you please let me know if there are any outstanding concerns regarding the experience and capability of the development team? We were a bit surprised that this came up in the first place with the caliber of the team members have put in place. We also felt we overcame this challenge with the additional dialogue before and during the meeting but did not get the sense from the presentation of the staff report that we have met this concern. Combined the team members have been involved in the development and management of thousands of LIHTC projects.

2. Are there any other concerns with the team?

We would welcome any comments or questions from you. Again, we appreciate all of the efforts to date.

Thanks,

Paul Molinaro
Vice President
Welton Enterprises, Inc.
702 N Blackhawk Ave, Suite 109
Madison, WI 53705
(608) 833-5590 Office
(608) 661-8803 Direct
(608) 628-5427 Cell
(608) 661-8811 Fax

www.buildtosuit.com

Available Properties for Sale or Lease:
http://propertydrive.com/a.asp?e=paulm@buildtosuit.com

Go Green! Please do not print this e-mail unless necessary!

Note: The information contained in this message is intended only for use of the individuals named above and may contain confidential, proprietary or legally privileged information. No confidentiality or privilege is waived or lost by any erroneous transmission.

If you are not the intended recipient of this message, you are hereby notified that you must not use, disseminate, copy it in any form or take any action in reliance of it. If you have received this message in error, please delete it and any copies of it and notify the sender immediately.

Although deemed reliable, anyone planning on using the information attached to this email in order to make a business decision or anyone wishing to rely upon its accuracy is advised NOT TO DO SO without first independently verifying its accuracy by an investigation with all appropriate authorities and third parties prior to relying upon, or making plans based upon the information herein.