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Ninety 7 Fifty on the Park
Redevelopment Project – Status/Update

Prepared for:

The Village of Orland Park

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Village of Orland Park – Ninety 7 Fifty on the Park
Redevelopment Project Status/Update

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EXECUTIVE SUMMARY

The Village of Orland Park (the “Village”) has retained Kane, McKenna and Associates, Inc. (“KMA”, or the “Consultant”) in order to provide a status report regarding the performance of the Ninety 7 Fifty on the Park Redevelopment Project.

In conjunction with Metra Triangle FC, LLC (the “Developer”), the Village entered into a redevelopment agreement (“RDA”) for the redevelopment of 295 rental apartment units, including ancillary commercial space and a structured parking garage (the “Project”). The Project is also located in the Village’s Main Street/Triangle TIF District.

The Developer manages the construction of the Project, coordinates lease up and manages operations of the Project.

It is important to note that KMA did not undertake an audit or detailed financial review of either construction draws or monthly operating statements. The purpose of this status report is to present a “high level” review relating to the performance of the Project to date including analysis concerning future Village actions or decisions that are contained in the RDA.

As stated above, the Project is located in the Village’s Main Street/Triangle Tax Increment District (TIF) District, which was designated in 2004. The TIF District is located on the north side of 143rd Street and includes property between La Grange Road and Southwest Highway. The Village has provided site preparation and environmental remediation of property located in the TIF District, and has constructed the necessary roadway improvements (142nd Street, Main Street, and Jefferson Avenue). In addition, the TIF District is anchored by a Metra station, and adjacent commuter parking is also included.

The Project consists of 295 residential units, 4,000 s.f. of first floor commercial space, 8,666 s.f. of residential amenity space, and 365 onsite parking garage stalls situated on 150,165 s.f. of land (3.446 acres). The Project is located in one building wrapped around a centrally located four story parking garage with public parking on the first floor and secured parking for the residents on the floors above. The building consists of a total of 6 stories in height along Crescent Park (4 stories of residential over double height commercial/amenity space), 5 stories of residential along Main Street and Ravinia Avenue, and 4 stories of residential along 143rd Street.

The Project received its Certificate of Substantial Completion on June 11, 2014, with initial occupancy occurring in April, 2013, and 93% occupancy reported in September, 2014. The "Stabilization Date" per the RDA would be the first to occur if either 10% vacancy for six (6) consecutive months or 48 months after the construction of the Project. The RDA assumes stabilization would occur within 36 months after commencement of construction of the Project. Given current trends within the last four (4) months, it is possible that stabilization could occur prior to the end of this year (2014).

Initial interest in Project leasing has been strong and overall rental rates have kept pace with pro forma projections – exceeding thresholds set forth in the RDA. Renewals are also in line with management projections (for the greater part recording slight increases) and unit turnover is within industry standards (between 38% to 50%).

The Project's occupancy percentage level has continued to grow from 72% in January, 2014 to 93% in September, 2014. Rentals are in the range of $1,300 to $1,450 per month for the 756 s.f. units, $1,400 to $1,700 per month for the 798 s.f. to 892 s.f. units, $1,600 to $1,925 per month for the 975 s.f. to 1,163 s.f. units, and $1,875 to $2,300 per month for the duplex (1,512 s.f.) units.

Current rentals are either within the ranges projected or greater. The amenity packages and features are for the greater part consistent with the recommendations set forth in the various studies. The importance of the train station location, ease of access via La Grange Road, the presence of retail and restaurant options, and the pool of current renters are all important factors that support the leasing and occupancy of the Project.

Projected lease up estimates of 20 – 28 months (and acceptable market lease up estimates at up to 36 months) is also exceeded as the Project records a 93% occupancy since September, 2013 or 18 months.

As of June 11, 2014 the Village and the Developer agreed that Substantial Completion of the Project as defined in the RDA (completed per Final Plans and the conditions of the RDA including an Architect's certification and evidence of all vendor/contractor payments and lien waivers among other matters).

The Village retained the services of US Equities Realty as its representative during the construction process in order to monitor the Developer's progress as well as conformance to contract provisions. Given the size of the Project and the budget involved, the role of the Developer was instrumental to timely delivery of the Project within the parameters of costs set forth in the RDA. In addition, the Project delivery was on schedule in conformance to the RDA.

The Developer has engaged in a comprehensive leasing and advertising program. The current advertising includes online resources such as For Rent, Apartments.com, Apartmentguide.com, Craigslist, Twitter, Facebook, and others. Outreach to local businesses, the maintenance of the on site office, and property advertisements complement the online efforts.

Current physical occupancy (278 of 295 units) is 93% (September, 2014). As stated above, market rents continue to be maintained and average rent renewals evidence increases. Remaining units include largely 1 BR units with a smaller portion of 2 BR units. Lease-up has been strong with 93% occupancy recorded over an approximately sixteen (16) month period.

Rent collections continue to be solid. On site management and response to tenant reports are monitored in terms of timing and type of request (e.g., appliance repair, electrical and lighting, etc.). KMA met with on site management and reviewed leasing efforts to date, as well as reviewing management's experience with existing tenants and new tenant/marketing efforts.

A large percentage of occupants are adults, with less than 10% of the population classified as minors. Incomes are reported are also conformant with the market and trends identified in the market studies. KMA's review of the tenant/unit composition included review of the individual unit data provided in the owner's reports, as well as discussions with management. Nationally, as well as regionally, the apartment rental demand appears to continue to be strong.

Market study estimates relating to the incomes of renters are also consistent with the data summarized above. Minimum income levels are projected to be at least $50,000 to $60,000 for renters, and the data indicates that higher levels are present – with greater diversification including 24% of residents earning $130,000 or more.

The Developer has provided KMA with the 2015 forecast for the Project, consistent with the reports submitted to the Village on a monthly basis (as updated with current data and budget data).

Highlights of the 2015 projections include:

a) Maintenance of 90%+ occupancy and approximately 2%+ growth in rents. Total revenues increase significantly due to stabilized occupancy for a 12-month period.

b) Maintenance of non-property tax/insurance expenses at 22% of gross rent. The Developer continues to monitor monthly expenses and reports any variance to the Village as well as the rationale for increase (one time event or need for adjustment).

c) Property taxes are expected to be reduced from 2014 levels by approximately 15%. The property tax and insurance expenditures represent 23% of gross rentals, estimated at $1,269,996 for 2015 or $4,305 per unit.

Another avenue to pursue in the future would be for the Village or its appraiser to identify properties or a valuation approach that takes into account other market factors or comparables. Currently, the new construction of the improvements, the Project's amenity package, its location (near the train station) and past Village investment in infrastructure serve to differentiate the property from other apartment projects in the local marketplace. Unfortunately, the lack of comparables serves to limit the ability to reduce values.

The Village and the Developer have negotiated several options for the evaluation of the take out or the structure of permanent financing – all as contained in the RDA. One key component related to all of the options and Village reviews is the expected Project valuation. The Project capitalization as calculated by dividing the NOI by a "cap rate" will yield a Project value. This value theoretically represents the value attributed to the stream of Project income (the NOI) and resulting in a certain market return. The return is then the basis for the expected debt or equity payments associated with the Project financing. The cap rate is determined by the real estate marketplace, and reflects an assessment of risk associated with the Project's continued ability to produce the projected NOI. Variables that can impact the cap rate include the competition in the marketplace (both the apartments locally and the residential marketplace nationwide), interest rate movement, competing real estate investments, and other factors that impact investment (e.g., stock market performance, bond yields, etc.).

Although there are numerous scenarios relating to the allocation of Project proceeds in the RDA, including take out of the Village loan and the incentive, the review of Project value and current market conditions is an important first step.

Another observation relates to the cap rate – rates below 6.0% favorably impact valuation in relation to the initial investment while rates greater than 6.0%, although producing positive values, said values do not exceed the initial investment. Other factors impact the takeout decision but clearly the NOI amount and the market cap rate are critical variables to review.

To the extent that rents are expected to stabilize in the $1.70/s.f. to $1.80/s.f. range or if expenses can be favorably adjusted, the 5.5% to 6.0% cap rate range (or lower if possible) would be favorable to the Project valuation. To the extent cap rates are expected to rise, and if rents are expected to stabilize, then even closer attention to market cap rates is warranted. Other variables can impact the valuation, but the rentals and property tax burden would appear to be the most important.

Both the Village and the Developer will need to consider the impacts of short term (current) strength in the residential apartment market versus potential impacts of market competition, the potential higher interest rates, and the overall performance of the Project. As the Project approaches stabilization, the need for a coordinated review is important to the take out of Village debt and the long term private ownership of the property. Future consultation with appraisers and relevant real estate finance professionals should be coordinated and explored on a regular basis.

SECTION ONE. BACKGROUND AND REPORT PARAMETERS

The Village of Orland Park ("the Village") has retained Kane, McKenna and Associates, Inc. ("KMA", or the "Consultant") in order to provide a status report regarding the performance of the Ninety 7 Fifty on the Park Redevelopment Project.

In conjunction with Metra Triangle FC, LLC (the "Developer"), the Village entered into a redevelopment agreement ("RDA") for the redevelopment of 295 rental apartment units, including ancillary commercial space and a structured parking garage (the "Project"). The Project is also located in the Village's Main Street/Triangle TIF District.

The Developer manages the construction of the Project, coordinates lease up and manages operations of the Project.

The Village has requested KMA to:

1. Evaluate Project performance to the initial Developer and Project targets, such as absorption, rent rates, and excess cash flow sharing;

2. Evaluate Project performance against industry trends in the Chicagoland region based on review of Consultant files and other information identified by the Village and Developer;

3. Compare and review Project related costs and schedule as compared to exhibits included in the RDA;

4. Identify areas in which the Project is exceeding financial expectations, meeting financial expectations, or short of financial expectations based upon information available to the Consultant;

5. Overview of and analyze aggregate tenant information with respect to average income, occupations, and age-banded ranges to better understand the typical tenant based upon information that would be available from the Developer and its leasing/marketing agents;

6. Identify key finance risk factors associated with future performance of the Project in relation to the RDA requirements; and

7. Conceptual outline or examination of "early out" options for the Village if the Village wished to exit the Project, including review with market professionals and/or financing sources identified by the Consultant.

It is important to note that KMA did not undertake an audit or detailed financial review of either construction draws or monthly operating statements. The purpose of this status report is to present a "high level" review relating to the performance of the Project to date including analysis concerning future Village actions or decisions that are contained in the RDA.

As stated above, the Project is located in the Village's Main Street Triangle Tax Increment Finance (TIF) District, which was designated in 2004. The TIF District is located on the north side of 143rd Street and includes property between LaGrange Road and Southwest Highway. The Village has provided site preparation and environmental remediation of property located in the TIF District, and has constructed the necessary roadway improvements (142nd Street, Main Street, and Jefferson Avenue). In addition, the TIF District is anchored by a Metra station, and adjacent commuter parking is also included.

Pursuant to the RDA, the Project as completed is described below:

The Project consists of 295 residential units, 4,000 s.f. of first floor commercial space, 8,666 s.f. of residential amenity space, and 365 onsite parking garage stalls situated on 150,165 s.f. of land (3.446 acres). The Project is located in one building wrapped around a centrally located four story parking garage with public parking on the first floor and secured parking for the residents on the floors above. The building consists of a total of 6 stories in height along Crescent Park (4 stories of residential over double height commercial/amenity space), 5 stories of residential along Main Street and Ravinia Avenue and 4 stories of residential along 143rd Street.

Site Summary:

Land Area (s.f.)	150,165
Acreage	3.446
Number of Residential Units	295
Commercial Space (s.f.)	4,000
Residential Amenity Space (s.f.)	8,666
Parking Garage Stalls	365

The residential units include 9’ ceilings, upgraded cabinet packages, granite countertops with under mount sinks, track and pendant lighting, brushed nickel hardware, upgraded hard surfaces in the kitchens and entries, patios/balconies, 2” blinds faux wood, roman soaking tubs with tile surrounds, upgraded carpet, washer/dryer, faux stainless steel appliances; including a gas stove with self-cleaning oven, microwave oven, dishwasher, garbage disposal and double door frost-free refrigerator.

The residential amenity space is located along Crescent Park and wrapping the building corner along Main Street. The pool is located on the north side of the parking garage between the buildings and a courtyard is located on the south side of the parking garage between the buildings.

Average unit size consists of approximately 750 to 1,200 square feet including a mix of separately metered (water, electricity, gas) 1 bedroom (59%) and 2 bedroom units (41%) – plus 14 duplex 2 bedroom units (approximately 1,500 s.f.). The Project includes on site amenities including a resort style pool, landscaped plaza/courtyard, and various services/amenities (business center, leasing office, fitness center) located on the first floor. (Source: RDA)

The Project received its Certificate of Substantial Completion on June 11, 2014, with initial occupancy occurring in April, 2013, and 93% occupancy reported in September, 2014. The "Stabilization Date" per the RDA would be the first to occur if either 10% vacancy for six (6) consecutive months or 48 months after the construction of the Project. The RDA assumes stabilization would occur within 36 months after commencement of construction of the Project. Given current trends within the last four (4) months, it is possible that stabilization could occur prior to the end of this year (2014).

SECTION TWO. PROJECT STATUS TO DATE

Initial interest in Project leasing has been strong and overall rental rates have kept pace with pro forma projections – exceeding thresholds set forth in the RDA. Renewals are also in line with management projections (for the greater part recording slight increases) and unit turnover is within industry standards (between 38% to 50%).

The Project's occupancy percentage level has continued to grow from 72% in January, 2014 to 93% in September, 2014. Rentals are in the range of $1,300 to $1,450 per month for the 756 s.f. units, $1,400 to $1,700 per month for the 798 s.f. to 892 s.f. units, $1,600 to $1,925 per month for the 975 s.f. to 1,163 s.f. units, and $1,875 to $2,300 per month for the duplex (1,512 s.f.) units.

The rental projections that were included in the initial Village appraisal as well as two (2) independent market studies in 2010 are summarized below:

	Projected Monthly Rentals		
Unit Type	Renzi	Kretchmer	Cross
1 BR (750 s.f. to 900+ s.f.)	$1,250 to $1,450	$1,250 to $1,445	$1,355 to $1,540
2 BR (1,000 s.f. to 1,200 s.f.)	$1,500 to $1,800+	$1,500 to $1,850	$1,600 to $1,725
Duplex Units	$1,900+	$1,950	$1,925

Source: Renzi & Associates, Inc.; Valerie S. Kretchmer Associates, Inc.; Tracy Cross & Associates, Inc.

Current rentals are either within the ranges projected or greater. The amenity packages and features are for the greater part consistent with the recommendations set forth in the various studies. The importance of the train station location, ease of access via La Grange Road, the presence of retail and restaurant options, and the pool of current renters are all important factors that support the leasing and occupancy of the Project.

Projected lease up estimates of 20 – 28 months (and acceptable market lease up estimates at up to 36 months) is also exceeded as the Project records a 93% occupancy since April, 2013 or 18 months.

The financing plan as set forth in the RDA included the following preliminary budget and funding sources:

CHART 1 - RDA PRELIMINARY BUDGET

DEVELOPER PROJECT COSTS*	TOTAL
Construction Costs	52,500,000
Architectural & Engineering	
Architecturial/Engineering Fees	1,804,245
Construction Period Costs	
Real Estate Attorney	100,000
Construction Loan Legal	80,000
Title Insurance & Recording	40,000
Land Inspections/Owner's Rep	
Interest Reserve	2,705,693
Financing Fee - Construction	
Furnishings & Equipment (FF&E)	250,000
Other Period Costs	
Property Taxes - Construction Period	300,000
Retail Leasing Fees	32,400
Working Capital/Lease-up Marketing	436,015
Residential Leasing Fees	88,500
Connection & Impact Fees	
Appraisal	15,000
Insuance	200,000
Organizational (e.g. Partnership)	5,000
Construction Management Fee/Bonus	1,050,000
Development Contingency	1,575,000
Tenant Improvements	400,000
Total Development cost	**$61,581,853**
Developer Overhead	1,766,285
TOTAL PROJECT COSTS	**$63,348,138**

SOURCES OF FUNDS*	TOTAL
Developer Project Incentive	23,114,138
Developer Loan	38,234,000
Developer Cash Contribution	1,000,000
Developer Fee Contribution	1,000,000
Interim Income	0
TOTAL SOURCES	**$63,348,138**

* To be updated - see following chart

Source: RDA

The preliminary budget above was updated as design/engineering progressed and then was replaced by the budget below – utilized as the Village guidelines for monitoring costs and payment over the Project's implementation.

CHART 2 - ACTUAL BUDGET

USES OF FUNDS	BUDGET
Hard Construction Costs	53,533,301
Soft Costs	
Architectural & Engineering	
Architectural	1,804,245
Legal & Organizational	
Real Estate Attorney	170,000
Construction Loan Legal (Lender - $30K, Borrower - $50K	
Organizational - Partnership	
Title Insurance & Recording	40,000
Commitment Fee	
Marketing & Lease-Up	
Furniture, Fixtures & Equipment	450,000
Working Capital	234,912
Pre-Leasing/Marketing	96,850
Lease-Up Operatiing Deficit	
Retail Leasing Commissions & Marketing	32,400
Leasing Incentive Fee ($300/unit)	88,500
General Administrative	
Appraisal	
Insurance	100,000
Property Taxes	300,000
Construction Administration Fee (2%)	1,088,098
Tenant Improvements ($100/s.f.)	400,000
Other Development Fees	
Development Contingency (3%)	1,632,147
Construction Contingency (3.30%)	871,587
Developer Overhead (3%)	1,825,261
Financing	
Net Construction Interest (4.5%)	2,567,406
TOTAL USES	**$65,234,707**

USES OF FUNDS	BUDGET
Developer Equity	2,000,000
Developer Loan	38,234,707
Village Loan	25,000,000
	$65,234,707

Source: Village

The actual budget above reflects the draw schedules utilized by the title company and the Developer over the course of the Project implementation.

The differences between the RDA budget and the updated (actual) budget are due primarily to construction costs and contingency allowances. It is important to note that construction cost increases did not exceed 105% of the Guaranteed Maximum Price (GMP) ($52,500,000), as set forth in the RDA (the max would be $55,125,000). The Village's GMP construction contract was $53,533,301 which amended the original RDA GMP amount of $52,500,000. This occurred because of primarily change orders and add-ons, all as part of the actual construction and ongoing implementation of the Project.

As of June 11, 2014 the Village and the Developer agreed that Substantial Completion of the Project as defined in the RDA (completed per Final Plans and the conditions of the RDA including an Architect's certification and evidence of all vendor/contractor payments and lien waivers among other matters).

The Village retained the services of US Equities Realty as its representative during the construction process in order to monitor the Developer's progress as well as conformance to contract provisions. This was an additional layer of review that the Village utilized during the process. The Village also maintained a series of spreadsheets/financial controls in conjunction with the title company's role in payouts in order to monitor and track the Project to budget.

Given the size of the Project and the budget involved, the role of the Developer was instrumental to timely delivery of the Project within the parameters of costs set forth in the RDA. In addition, the Project delivery was on schedule in conformance to the RDA.

Village funding involved a series of debt instruments utilized over the course of the Project implementation. Bond issues involved taxable general obligation bonds of $40,000,000 and a line of credit (to be converted to term loan on 1/5/15) of approximately $21,811,660. Developer Equity included a $1,000,000 contribution and $1,000,000 in deferred fees.

The Developer has engaged in a comprehensive leasing and advertising program. The current advertising includes online resources such as For Rent, Apartments.com, Apartmentguide.com, Craigslist, Twitter, Facebook and others. Outreach to local businesses, the maintenance of the on site office, and property advertisements complement the online efforts.

Current physical occupancy (278 of 295 units) is 93% (September, 2014). As stated above, market rents continue to be maintained and average rent renewals evidence increases. Remaining units include largely 1 BR units with a smaller portion of 2BR units. Lease-up has been strong with 93% occupancy recorded over an approximately sixteen (16) month period.

Management provides detailed monthly owners' reports (MOR) to the Village which include:

- Narrative Report
- Summary of RDA Financial Terms
- Balance Sheet/Income Statement
- Cash Flow
- Bank Reconciliation Statement
- Vendor Aging Report
- Monthly Transaction Summary
- Lease-Up and Management Fee Calculations
- Detailed General Ledger and Bank Deposit Audit
- Detailed All Units Report (including delinquent and prepaid)
- Detailed Monthly Owner Report (MOR) (actual and budget to year end)

Rent collections continue to be solid. On site management and response to tenant reports are monitored in terms of timing and type of request (e.g., appliance repair, electrical and lighting, etc.). KMA met with on site management and reviewed leasing efforts to date, as well as reviewing management's experience with existing tenants and new tenant/marketing efforts.

Management has implemented policies with respect to the rental of units that includes guidelines for the verification of rental or ownership, employment and criminal history and for the evaluation of such history (the "Rental Policies"). The evaluation of the employment history includes evidence to be provided that an applicant's gross monthly income is to equal or exceed three times the gross monthly rent. The policies currently used by management were also reviewed by KMA. Management has indicated that in certain cases where an applicant does not meet all of the criteria, management does look at the strength of other criteria to determine whether any such deficiency can be waived due to other strengths.

Personnel were well prepared in their understanding of the property management functions and were able to review operating expense line items identified in the monthly owner's reports, including the status of concessions, turnover of leases and variances in budget items.

Overall, variances are expected as actual operations commence and adjustments based on actual experience are noted and dealt with by management. Line items relating to management fees, administrative/payroll, maintenance and repairs, utilities, painting and decorating, contract services, and advertising/promotion were also reviewed. Ratios are within industry averages and are actually at the lower range due to the condition and the age of the property. Property taxes are higher than budget, and this item will be discussed separately below.

It is important to note that as the Project ages, capital expenditures will likely increase, and the need for replacement reserve deposits will need to be factored into future planning.

In order to confirm that management is following the Rental Policies, KMA asked management to provide the rental records for twenty nine (29) of the rental units as a representative sample (the "Reviewed Records"). The records requested were based on units solely chosen randomly by KMA based on the following criteria in order to provide a varied representative sample:

1. Initial move-in date – samples from both initial tenants and tenants that moved in various months after the initial completion of the Development;

2. Tenants that have since renewed their leases; and

3. Various unit sizes and rental rates.

Project demographics based on the management information available and the Reviewed Records indicate that tenants are in primarily professional/service industries. Examples of the employment as derived from the Reviewed Records indicate the sample tenants are in the following positions, or prior positions, if retired:

1. Retired (2)
2. Engineer – Manufacturing (3)
3. Municipal Employees (not in Orland Park)
4. Merchandising Coordinator
5. Chiropractor
6. Train Conductor
7. Retail Store Manager (2)
8. Hospital Patient Care Technician
9. Airline Network Manager
10. Attorney
11. Hospital Patient Coordinator
12. Senior Housing Specialist for Federal Agency
13. Newspaper Marketing Manager
14. Horticulturalist
15. Manager – Financial Industry (2)
16. Fitness Coach – Personal Trainer (2)
17. Infrastructure Engineer – Financial Services Industry
18. Railroad Train Master
19. Pharmacist
20. Real Estate Investor
21. Sports Team Director
22. Gaming Industry

A large percentage of occupants are adults, with less than 10% of the population classified as minors. Incomes as reported are also conformant with the market and trends identified in the market studies. KMA's review of the tenant/unit composition included review of the individual unit data provided in the owner's reports, as well as discussions with management. Nationally, as well as regionally, the apartment rental demand appears to continue to be strong.

Additional information provided by the Developer summarizes the current demographics of the Project.

Chart 3 – Project Demographics

$0 – $46,000	0.00%
$46,001 – $65,000	22.74%
$65,001 – $80,000	27.79%
$80,001 – $95,000	6.85%
$95,001 – $110,000	11.91%
$110,001 – $130,000	6.49%
$130,000 and up	24.18%
TOTAL	100.00%

	Age Total	**%**
Under 18	26	6.00%
18 – 21	9	2.07%
22 – 25	38	8.76%
26 – 29	65	14.98%
30 – 33	53	12.21%
34 – 37	35	8.06%
38 – 41	37	8.53%
42 – 45	29	6.68%
46 – 49	33	7.60%
50 – 53	36	8.29%
54 – 57	25	5.76%
58 – 61	11	2.53%
62 – 65	15	3.46%
66 – 69	13	3.00%
70 – 73	5	1.15%
74 – 77	4	0.92%
Over 78	0	0.00%
TOTAL	434	100.00%

Source: Developer

Market study estimates relating to the incomes of renters are also consistent with the data summarized above. Minimum income levels are projected to be at least $50,000 to $60,000 for renters, and the data indicates that higher levels are present – with greater diversification including 24% of residents earning $130,000 or more. The income levels reflected in the Reviewed Records also reflect that income levels for such samples and reflect the incomes as sufficient to comply with the Rental Policies. Projected market demand identified singles, roommates, and couples in the 20 year to 30 year range. The Project demographics indicate that a wider diversity is present with about 50% of the residents over age 38, but under 69 years old.

SECTION THREE. PROJECT FORECAST

The Developer has provided Kane, McKenna with the 2015 forecast for the Project, consistent with the MOR formats previously submitted to the Village on a monthly basis (as updated with current data and budget data).

Highlights of the 2015 projections include:

a) Maintenance of 90%+ occupancy and approximately 2%+ growth in rents. Total revenues increase significantly due to stabilized occupancy for a 12-month period.

b) Maintenance of non-property tax/insurance expenses at 22% of gross rent. The Developer continues to monitor monthly expenses and reports any variance to the Village as well as the rationale for increase (one time event or need for adjustment).

c) The property tax and insurance expenditures represent 23% of gross rentals, and are estimated at $1,269,996 for 2015 or $4,305 per unit.

In reference to the RDA and initial tax projections, the actual tax experience is significantly greater than forecasted. Previously, estimates ranged from $2,250 to $3,000 per unit based on comparables. The increase in property tax burden represents a differential of $1,305 to $2,055 per unit or $385,000 to $606,000 per year. The costs of the construction and Project development ($65,000,000+) as well as average rents in excess of $1.70/s.f. have contributed to the increase. However, the comparables identified for the tax appraisal contain two south suburban and one west suburban location (not in Orland Park).

Another avenue to pursue in the future would be for the Village or its appraiser to identify properties or a valuation approach that takes into account other market factors or comparables. Currently, the new construction of the improvements, the Project's amenity package, its location (near the train station) and past Village investment in infrastructure serve to differentiate the property from other apartment projects in the local marketplace. Unfortunately, the lack of comparables serves to limit the ability to reduce values.

The continued tax burden could have an impact on provisions of the RDA that impact both the Developer Loan as well as the Net Operating Income and the overall valuation/sales price of the Project, which impacts payment of the Developer Project Incentive. The differential in property taxes is one of the largest differentials in comparison to Exhibit D of the RDA: real estate taxes are forecast at $663,750 versus projected 2015 taxes of $1,270,000. As a result, even though rentals are in excess of $1.60/s.f., the NOI is impacted by the increase in property taxes. The Village also would need to explore the benefits of the receipt of the <u>additional</u> TIF increment and potential impacts on the Project Incentive.

SECTION FOUR. <u>FINANCING OPTIONS FOR THE VILLAGE</u>

As the Project moves toward stabilization, the Village is expected to convert the remaining line of credit to a term loan. Per the terms of the RDA, the Project NOI is applied to the amortization of the Developer Loan of $38,234,707. Based on a 4.5% interest rate, the debt service over the next three years would be approximately $2,544,000 per year. This amount is projected to be covered by the Project NOI. In addition, amounts after payment of the Developer Loan will be shared proportionately between the Developer and the Village pursuant to the terms of the RDA and would be allocated to Village and Developer obligations.

The Village and the Developer have negotiated several options for the evaluation of take out or the structure of permanent financing – all as contained in the RDA. One key component related to all of the options and Village reviews is the expected Project valuation. The Project capitalization as calculated by dividing the NOI by a “cap rate” will yield a Project value. This value theoretically represents the value attributed to the stream of Project income (the NOI) and resulting in a certain market return. The return is then the basis for the expected debt or equity payments associated with the Project financing. The cap rate is determined by the real estate marketplace, and reflects an assessment of risk associated with the Project’s continued ability to produce the projected NOI. Variables that can impact the cap rate include the competition in the marketplace (both the apartments locally and the residential market nationwide), interest rate movement, competing real estate investments, and other factors that impact investment (e.g., stock market performance, bond yields, etc.).

Although there are numerous scenarios relating to the allocation of Project proceeds in the RDA, including take out of the Village loan and the incentive, the review of Project value and current market conditions is an important first step.

The analysis below assumes several cap rates as well as Project NOI assumptions in order to assess the financial condition of the Project. **THIS ANALYSIS IS NOT INTENDED TO SERVE AS AN APPRAISAL OR PROJECT VALUATION – THE VILLAGE AND DEVELOPER WOULD NEED TO UNDERTAKE SUCH AN ANALYSIS SEPARATELY.** The analysis is intended to highlight certain information and suggests next steps for the Village to consider. The cap rates are based on general discussions regarding current market conditions affecting apartment properties (primarily suburban) KMA undertook with other developers as well as the review of real estate publications (Real Estate Research Corporation).

Assuming that the Project is valued based on the projected 2015 NOI, the chart below summarizes the expected values.

Current Scenario

Projected 2015 NOI	Cap Rate		
$3,432,801 (property taxes at $4,305 per unit)	5.5%	6.0%	6.5%
Estimated Project Value:	$62,414,563	$57,213,350	$52,812,323

As stated previously, one key component of the Project expenses relates to the property tax burden. To the extent property taxes are reduced and as the NOI is increased, valuation estimates are positively affected (assuming all other variables – rents/operating expenses – are held constant).

Projected NOI assuming reduction in property taxes	Cap Rate 5.5%	6.0%	6.5%
10% reduction (NOI – $3,559,800)	$64,723,636	$59,330,000	$54,766,154
15% reduction (NOI – $3,623,300)	$65,878,181	$60,388,333	$55,743,077
20% reduction (NOI – $3,686,800)	$67,032,727	$61,443,667	$56,720,000

The chart above indicates that each 10% reduction in taxes positively impacts valuation (assuming all other variables are held constant) to the current scenario, in the range of a 3.5% to 4.0% increase (10% reduction in taxes), a 5.5% to 6.0% increase (15% reduction in taxes) or a 7.0% to 7.5% increase (20% reduction in taxes).

The proposed tax reductions would be in the range of approximately $127,000 (10% scenario) to $190,500 (15% scenario) or $254,000 (20% scenario). Both the Developer and the Village would need to explore with tax counsel the potential for review of the data – as even a modest reduction can have significant impacts on valuation.

The chart below indicates that each 5% increase in rentals (excluding "other income") positively impacts valuation (assuming all other variables are held constant), in the range of 4.0% to 7.5% in comparison to the current scenario. The average per square foot rentals would increase from approximately $1.70/s.f. to $1.87/s.f. <u>All other variables are held constant – including expenses</u>.

Projected NOI assuming increases in rentals	Cap Rate 5.5%	6.0%	6.5%
5% increase (NOI – $3,710,437)	$67,462,490	$61,840,616	$57,083,646
7.5% increase (NOI – $3,849,255)	$69,986,454	$64,154,250	$59,219,307
10% increase (NOI – $3,988,073)	$72,510,418	$66,467,883	$61,354,969

Another observation relates to the cap rate – rates below 6.0% favorably impact valuation in relation to the initial investment while rates greater than 6.0%, although producing positive values, the values do not exceed the initial investment. Other factors impact the takeout decision but clearly the NOI amount and the market cap rate are critical variables to review.

To the extent that rents are expected to stabilize in the $1.70/s.f. to $1.80/s.f. range or if expenses can be favorably adjusted, the 5.5% to 6.0% cap rate range (or lower if possible) would be favorable to the Project valuation. To the extent cap rates are expected to rise, and if rents are expected to stabilize, then even closer attention to market cap rates is warranted. Other variables can impact the valuation, but the rentals and property tax burden would appear to be the most important.

Both the Village and the Developer will need to consider the impacts of short term (current) strength in the residential apartment market versus potential impacts of market competition, the potential higher interest rates, and the overall performance of the Project. As the Project approaches stabilization, the need for a coordinated review is important to the take out of Village debt and the long term private ownership of the property. Future consultation with appraisers and relevant real estate finance professionals should be coordinated and explored on a regular basis.