



Market Sector Trends & Challenges

February 17, 2022

Welcome Panelists!



MICHAEL A. FABER
Founder & Principal

- 35+ years in commercial development
- Managed more than 2.5 million square feet of successful projects
- Negotiated 250+ lease transactions
- Former member of Brookfield Planning Commission, now serves on its Community Development Authority

Welcome Panelists!



MICHAEL WEISS
Co-Founder & Principal

- Started General Capital with brother David after building career in lending and development
- Preferred partner for Kroger's Roundy's brand
- 25+ successful LIHTC projects
- Active in market rate apartments & grocer-anchored properties
- Current Board member of Clean Wisconsin

Welcome Panelists!



MATT MORONEY
President & COO

- Decades of experience in multi-family, industrial & commercial development
- Former Executive Director of Metropolitan Builders Association
- Former Deputy Chief of Staff for Governor Scott Walker
- Former Strategic Economic Initiatives Director for Wisconsin
- Current Board member of Citizen's Bank & Waukesha Business Alliance



Challenges in the Real Estate Sector



Industry forced to pivot & adapt to new realities

Development Needs Haven't Changed...

Job creation

Tax base growth
& diversification

Redevelopment

Neighborhood
preservation

Infrastructure

Housing
availability &
choice

Pollution
control, cleanup

Quality of life

Public-private partnerships are more
important than ever before!



Rising to the Challenge

What can municipalities & developers do?

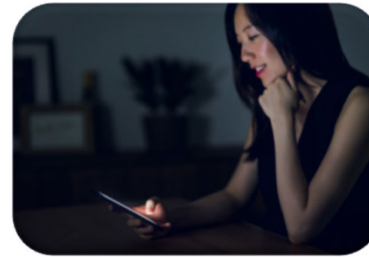
Current Trends: Industrial



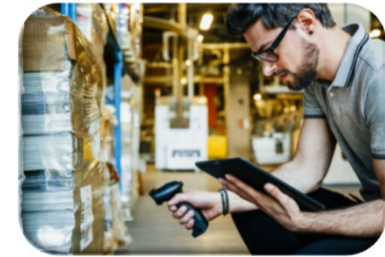
High ceilings: 32'



Proximity to highway



E-commerce explosion



Warehouse capacity



Last-mile distribution



Aging product: renovation needs



Infrastructure & roadways

Current Trends: Residential



Consumers demand more amenities, even in affordable projects



Low vacancy rates are driving rents upward

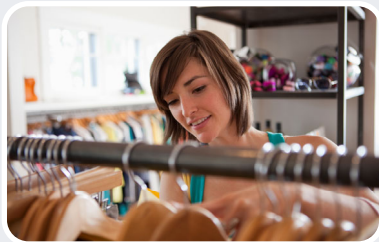


Increased operating expenses



Urban exodus? Or urban shuffle?

Current Trends: Commercial



Shop from
home vs.
brick &
mortar



Retail has
fallen out of
favor with
lenders



Abundance
of vacant
space



Adaptive
re-use of
available
space

Current Trends: Financial

Changes in financing terms: Both banks & investors

Rising interest rates: Offset by spread compression?

Cap rates at historical lows: How sustainable?

Current Investment: Sell or hold?

Creek Two Site

Full 4-way freeway interchange
(Ryan Road)

Completed 5-lane wide
County Trunk Highway

- 114-acre site
- 2.6 million SF
- Amazon took 75 acres
- Two remaining 14-acre parcels to build on

Ryan Business Park: Oak Creek, WI – Site Aerial

Ryan Business Park: Oak Creek, WI - Rendering

- 114-acre site
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Ryan Business Park: Oak Creek, WI - Amazon

- 114-acre site
- 2.6 million SF
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- Two remaining 14-acre parcels to build on



- 
- 52-acre site
 - First spec building = 203,000
 - SF going up now
 - 10/2/2022 photo

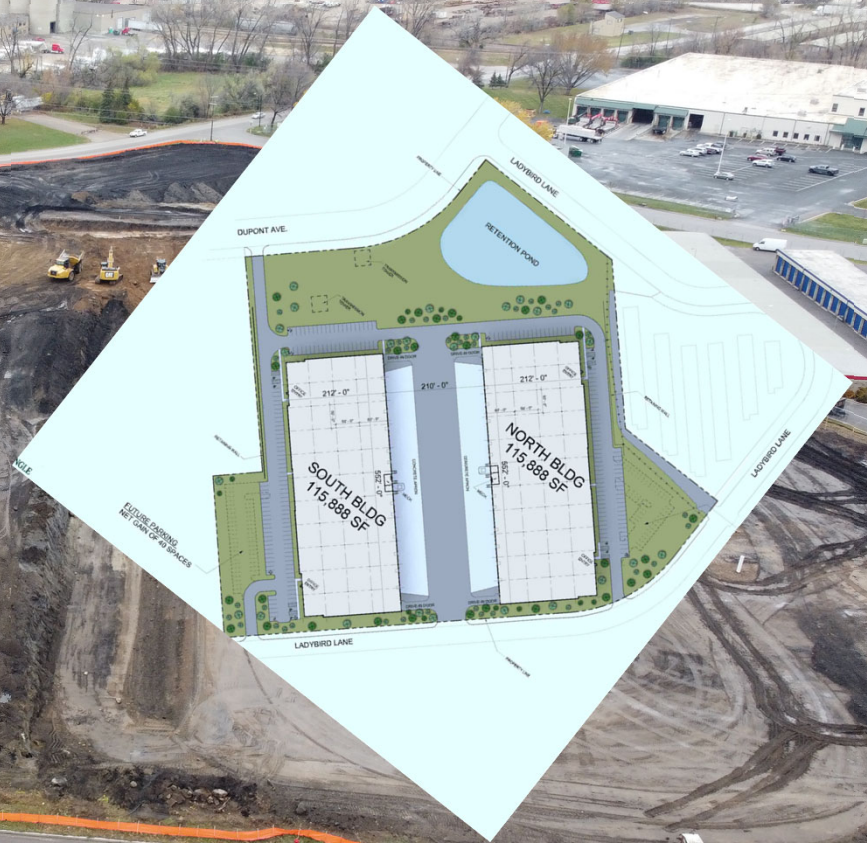
Capstone 41: Germantown, WI – Site Aerial

Capstone 41: Germantown, WI - Site Progress

- 52-acre site
- First spec building = 203,000
- SF going up now
- 11/30/31 photo



- 16-acres
- 231,000 SF
- 2 spec buildings going up now



Capstone 35: Burnsville, MN – Aerial & Site Plan

Questions?



Greenbelt Apartments, 160 Units

\$1,200,000 Village bought land directly, sold to us for \$10,000

\$2,800,000 developer incentive paid at occupancy

\$4,000,000 total TIF proceeds

District Base Value: \$360,000

Guaranteed FMV: \$20,000,000 (\$125,000/unit)

Current FMV: \$23,274,000

Increment created: \$22,914,000 (*so \$4.0M TIF = 17% of incr.*)

Cost: \$27,345,000, or \$171k/unit

\$10,000 land basis (\$7.5k/unit subsidy)

\$0 dev & construction fees (\$2,735,000 forgone)

less TIF: \$2,800,000 (\$17.5k/unit)

Net Cost: \$24,545,000, or \$153k/unit



GENERAL CAPITAL

Developer Math

- NOI (2021): \$1,448,000
 - 5.0% cap rate: \$28,960,000
- Cost = \$24,545,000
 - Debt: \$21,200,000
 - Equity: \$3,345,000

Profit = \$1,680,000

Including Fees \$4,415,000

Property Value (5% cap): \$28,960,000

less Development Cost: \$24,545,000

Less Forgone Fees: \$2,735,000

GENERAL CAPITAL



Developer Math

Property NOI: \$1,448,000
(Less) Debt Serv: \$882,000
Net Cash Flow: \$566,000

Perm Loan: \$22,350,000
Construction Loan: \$21,200,000
Equity Cash Out: \$1,000,000

Permanent Cash Equity: \$2,345,000
Equity (incl. fees): \$5,080,000

Cash-on-Cash (Cash Equity): 24%
Cash-on-Cash (Total Equity): 11%

Village Math

2021 increment \$523,000

Payoff in 12-13 years

Community/Developer Partnerships That Attract Retail



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MARKET IS REBOUNDING FROM COVID-19

Location, Location, Location Still is the Rule

- Grocery Anchored Centers Generally Held Up Well
- Areas with Higher Traffic Counts
- Areas with Higher Densities

Many Retailers Reimagining Themselves

- Drive Through Logistics – More Double Drive Throughs
- Parking Configuration – Pickup Locations
- Outdoor Dining Component for Restaurants
- Connectivity to Pedestrian/Biking Paths



RETAIL DOES FACE SOME CHALLENGES

Biggest Challenges

- Finding Labor/Wages
- Cost of Construct Rising Faster than Rents for Developers
- Material Shortages Raise Costs of Construction
- Material Shortages Extend Timeline of Delivery
- Impact of E- Commerce – Seems to Have Stabilized
- Inflation and Overall Economy
- Alcohol Licenses in Certain Areas
- Finding Franchisees



COMMUNITIES CAN CAPITALIZE IF RIGHT LOCATION/APPROACH

Approaches

- Realistic Expectations for the Location/Community
- Recognize the Importance of the Customer Experience
- Flexibility in Setbacks, Parking Areas, Site Plans
- Flexibility in Alternative Materials that Don't Sacrifice Quality – Realistic Design Standards
- Flexibility in Building Design
- Minimizing Infrastructure
- Assistance in Connecting the Development to the Community Through Trails Paths
- Incorporating Business in the Larger Development with “Cool Zones” or “Wow” Factors
- Housing Density Nearby
- Financial Assistance and Flexibility Are Especially Needed for Brownfield Developments



Creating a Partnership Is Key to Ultimate Success

Matt Moroney | President / COO
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Listening to Each Other's Goals

- Developer Needs a Return on the Investment (No Return-No Investors-No Project-No Business)
 - Studies, Staffing, Securing Property, Application Fees, Preparing Plans, Investor Expectations, **Minimize Risk & Maximize Value**
- Community Needs Performance (Project Disliked-Negative Impacts-No Reelection)
 - Delivery on Project Expectations, Balancing Citizen Expectations, Increment, Minimize Impacts on Budget, **Minimize Risk & Maximize Value**

Recognizing That Minimizing Risk & Maximizing Value Are Shared Goals

- Realistic Expectations from Both Parties/Predictability of Process
- Efficient Timelines – Markets Change Rapidly – Speed from Concept to Stabilization
- Flexibility to Adjust the Plan to the Market If a Larger Development
- Constant Communication and Problem Solving (No Major Surprises)

True Partnership Mentality – Each Party Wants the Other to Exceed Their Goals

OLYMPIA FIELDS – OCONOMOWOC CASE STUDY

Existing Condition 2019

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Blighted Property

- Resort Bought Out of Foreclosure
- Kmart Goes Bankrupt

Parcel Divided into 7 Different Ownership Groups

Key Parcel for Infrastructure and Development Design Not Owned By Wangard Affiliate

- Owner Just Recently Passed Away
- No Will
- Estate Administered Overseas - Heirs located in 8 Different Countries and Not Cooperating with Each Other



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Existing Condition 2019

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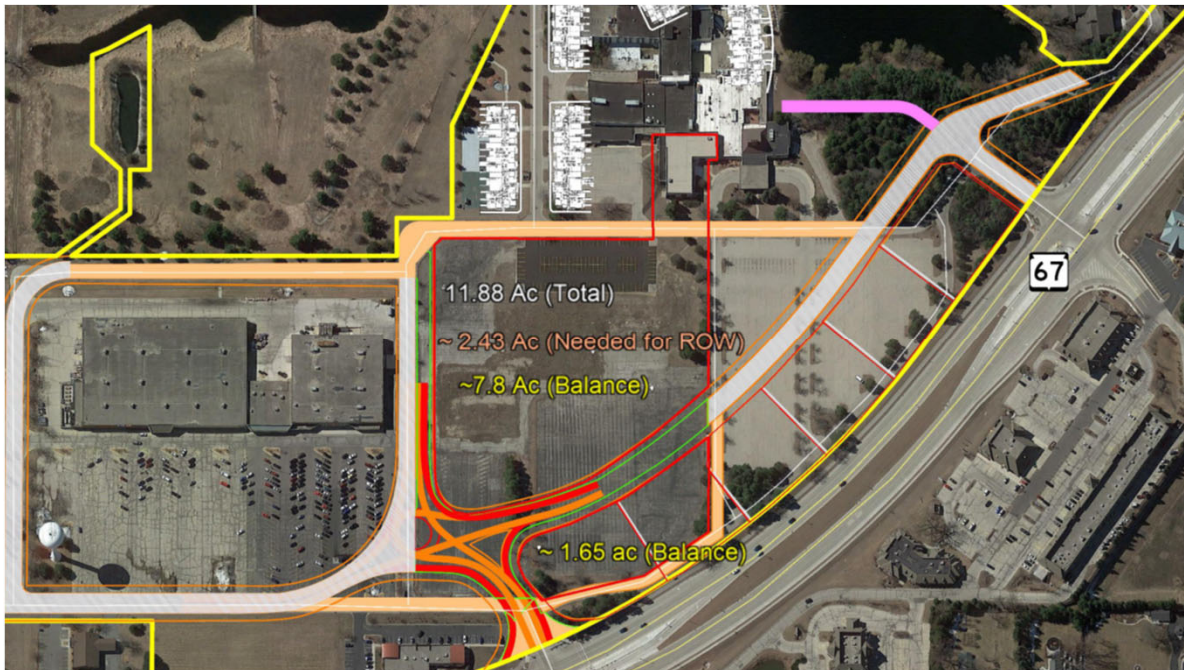
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OLYMPIA FIELDS – OCONOMOWOC CASE STUDY

CONNECTIVITY PLAN FOR THE DEVELOPMENT – IMPACT OF THE ESTATE'S DONUT HOLE

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OLYMPIA FIELDS – OCONOMOWOC CASE STUDY

Partnership Goals

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City Desires

- Master Plan for Entire Site and Additional Lands
- TIF Payback Period in 15 Years – Even Though Could Go to 27 Years
- Quality Development – Not Another Suburban Strip Mall
- Connectivity to the Larger Community and Gateway Feel
- Minimize Risk -Development Occurs Quickly and As Promised

Developer Desires

- City Infrastructure
- Financial Assistance for Demolition Activities
- An Attractive Development to Attract Retailers However Not Unrealistic Standards
- A Reasonable Return
- Minimize Risk – Development Occurs Quickly with a Responsive Community Partner



OLYMPIA FIELDS – OCONOMOWOC CASE STUDY

Strategy of Success

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1. Committee of the Whole Meetings to Discuss Alternative Plans
2. General Plan Was Selected
 - Eminent Domain - Properly Design the Development for Future
 - Land Not Needed for Public Infrastructure Place Out for Bid
 - Developer Promised - Bid the City's Purchase Price to Minimize City Risk
 - Increased Density Was Allowed for the Apartment Portion of the Project
 - TIF Agreement with 15 Year Payback Was Approved
3. City/Developer Jointly Plan Development with Regular Meetings with a Goal of Speed
 - Regular Updates Provided to Council As Project Progresses
4. Demolition Commences As Quickly As Possible with Apartment Construction to Follow
5. Plan Changes - Construction Material Costs Increase – Joint Decision Not to Demolish Kmart
6. Developer Conducts Grocery Market Study - Aggressively Markets Study to Find Anchor Tenant
7. Anchor Tenant Announced for Kmart Building – Retail Interest Spikes
8. City Approves Developers Request for Flexible Setbacks, Increase Heights and Mixed Uses
9. Flexibility Provided Will Encourage Some Retailers

Partnership – No Surprises – Exceeding Goals – Working Collaboratively

OLYMPIA FIELDS REPURPOSED K-MART

RENDERING OF MAJOR ANCHOR

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OLYMPIA FIELDS REPURPOSED K-MART

RENDERING OF MAJOR ANCHOR

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OLYMPIA FIELDS

PROJECT PARTNERS

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