



Proposal for

**PROFESSIONAL SERVICES –
FEASIBILITY STUDY FOR OREAD INN IN LAWRENCE, KANSAS**

SUBMITTED TO THE CITY OF LAWRENCE
DECEMBER 14, 2007

BY DEVELOPMENT STRATEGIES®



DEVELOPMENT STRATEGIES®

CONSULTANTS IN REAL ESTATE, COMMUNITY, AND ECONOMIC DEVELOPMENT / REAL ESTATE APPRAISAL

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December 14, 2007

Mr. Ed Mullins
Finance Director
City of Lawrence
6 East 6th Street
Lawrence, Kansas 66044

RE: Proposal for Professional Services – Feasibility Study for Oread Inn in Lawrence, Kansas

Dear Mr. Mullins:

Thank you for inviting Development Strategies to submit this proposal to conduct a financial feasibility analysis and evaluate the tax increment financing potential for a proposed Oread Inn mixed-use development in Lawrence, Kansas. Development Strategies has extensive experience evaluating Tax Increment Financing (TIF) and Transportation Development District (TDD) proposals in Kansas, Missouri, and other states for a variety of projects with a mix of uses, including housing, retail, entertainment, hotel and office. For example, we recently conducted the market study and TIF projections for Ballpark Village, a mixed-use entertainment district in downtown St. Louis that will include the whole spectrum of uses. In addition, Development Strategies is familiar with Lawrence, Kansas, as we were retained in 2005 to conduct several retail capacity analyses as well as assist the city in its efforts to rewrite its development code.

The Oread Inn development project is proposed to include a 74-room hotel, two floors of condominiums or extended stay units, 11,000 square feet of retail space, and a three-story parking garage for approximately 190 spaces, at the corner of 12th Street and Indiana. The total cost for this development is estimated at \$37 million. It is our understanding that the developer is requesting approximately \$10 million of this amount in public subsidy to help pay for costs associated with public improvements. The developer has proposed the use of TIF and TDD to pay for these public improvements.

The Oread Inn development will be located adjacent to the University of Kansas. Several representatives from the university have submitted letters of support for this project, expressing the need for nearby hotel rooms and meeting space to accommodate visitors to the campus. Additionally, the Oread neighborhood association appears to have minimal concerns related to the project.

While the project may have support among the public, the city of Lawrence has limited experience with TIF and is, therefore, rightly pursuing third party consultation regarding the financial feasibility of the project and its need for public subsidy. Development Strategies proposes the following scope of services to assist the city in its evaluation of the Oread Inn development proposal.

SCOPE OF SERVICES

Task 1: **Study Application Materials**

We will review all materials provided by the developer and the city that relate to construction, economics, market absorption, and financial projections, including tax projections. Additionally, we would review information concerning the long-term management of the project.

Robert M. Lewis AICP, CEC
Larry E. Marks AIA, AICP
Brad Beggs MAI

Brad Eilerman
Matthew Wetli, AICP

Task 2: Review developer assumptions

We will evaluate the assumptions that are built into the developer's financial projections to determine if they are realistic, consistent, and verifiable. This process will involve the following steps:

- a. Verification of sales projections using at least two methodologies that we typically employ.
- b. Verification of future market value of real property, using a methodology consistent with that used by the Douglas County Assessor's Office.
- c. Verification of market conditions and trends in Lawrence to evaluate the price points and growth rates anticipated for the proposed development.
- d. Verify the project construction costs and the reasonableness of developer's investment and rate of return versus public funding requested.

Task 3: Assess Competitive/Comparable Developments

Prepare an analysis of those projects that would either compete with the proposed development or provide lessons to be learned regarding the requisite characteristics of a successful project.

Task 4: Revenue Projections

We will project the potential annual revenues from all available sources. Projections will reflect the effects of market growth and inflation.

Task 5: Evaluate Funding Alternatives

We will determine the available public financing alternatives available to the project, including tax increment financing (TIF) and transportation development districts (TDD). We will evaluate whether the use of these financing tools is suitable and/or necessary for the proposed project. In addition, we will consider the appropriateness of the city's approval of such financing tools.

Task 6: TIF and TDD Revenue Projections

We will project the incremental sales taxes and real property taxes that will accrue to the TIF and TDD districts on an annual basis. These projections will be based on the market projections verified above and will include a net present value calculation of the future stream of TIF and TDD revenues, less debt issuance costs and related adjustments, to determine the likely cash proceeds in current dollars that could support reimbursement of eligible expenses.

Task 7: Debt Service Schedule

We will prepare a debt service schedule to determine the extent to which the projected annual TIF and TDD revenues can support bond payments.

Task 8: Prepare Detailed Report

We will prepare a detailed report that describes our findings based on the information obtained. This report will address the completeness and reasonableness or, conversely, the deficiencies and inconsistencies perceived in the materials provided. The report will also advise the city on financing alternatives, including considerations for bond options. This report will address the requirements for a feasibility study as defined by Kansas statute 12-1770a.

PROJECT STAFF

We do not anticipate the need to subcontract any part of the services outlined above. The DS professionals involved in this project will be:

- Robert Lewis - project manager and principal in charge. Bob is a principal of Development Strategies and has been with the firm since its founding in 1988.
- Naomi Shanker - market and financial analyst. Naomi has a master of business administration degree from Washington University and has been with Development Strategies for three years.

Resumes of these two individuals are included with this proposal. We have also included summaries of projects in which these individuals were principally involved and which exemplify their experience.

BUDGET AND SCHEDULE

Development Strategies estimates that three-weeks will be required to effectively perform the above outlined scope of services and deliver a draft report. A final draft would follow within one week of receiving comments, provided no additional research and analysis is required. The fee to perform the above scope of services is \$10,000, excluding direct expenses. The specifics of the budget are outlined below.


Feasibility Study and TIF Projections	\$8,500
Draft Report	\$5,500
Revisions and Final Report	\$2,000
TOTAL	\$16,000

Thank you for considering Development to assist you with the feasibility study which is a necessary and integral component of the development process. Should you need more information, please do not hesitate to contact us. We look forward to hearing from you.

Respectfully submitted on behalf of
DEVELOPMENT STRATEGIES, INC.



Robert M. Lewis
Principal and President



Naomi Shanker
Market and Financial Analyst

DEVELOPMENT STRATEGIES®

CONSULTANTS IN REAL ESTATE, COMMUNITY, AND ECONOMIC DEVELOPMENT / REAL ESTATE APPRAISAL

ROBERT M. LEWIS AICP, CEcD

Principal, President

CAREER SUMMARY AND BACKGROUND

Mr. Lewis is primarily responsible for economic growth projections, strategic planning, and action recommendations for real estate developments and community planning. His responsibilities also include producing studies in public finance, economic impacts, employment projections and labor economics, and real estate development feasibility. He designs, analyzes, and conducts attitudinal surveys in the context of both community planning and economic development assignments. He joined the organization in 1978 after two years with the St. Louis County Department of Planning. In 2000, Bob was named President of Development Strategies.

EXPERIENCE

Bob works in the public, private, and institutional sectors on a wide range of assignments. These include planning and policy analysis for local and regional economies; market and financial feasibility analyses for commercial real estate ventures; economic development marketing programs; attitudinal surveys by mail, phone, and Internet; focus group moderating; group facilitation for strategic planning; market development trends and economic profiles for geographic areas; tax and economic impact profiles; market evaluation for land development surrounding large institutions; socioeconomic and fiscal impact assessments; computerized real estate data files; highest and best use studies; housing resource studies; municipal; and policy papers for government entities.

REPRESENTATIVE ASSIGNMENTS

- Anchorage, Alaska, economic impact analysis and computer model for revised land development regulations; and Midtown plan market analysis, 2007.
- Riverside, Missouri, comprehensive city plan market projections and strategic action recommendations, 2006.
- Oklahoma City Medical Business District Corridor redevelopment plan market analysis, fiscal impact, and implementation strategies, 2006.
- Lubbock, Texas, Downtown Revitalization Plan market research and implementation strategies, 2007
- St. Louis, Missouri, *Downtown Now!* downtown development program market opportunities and financial feasibility, 1998-1999.
- Tulsa, Oklahoma, economic development plan—market-based growth projections and implementation strategies, 2005.
- Seabrook, Texas, waterfront redevelopment plan market analysis and fiscal benefits, 2005-2006.
- Paducah, Kentucky, riverfront development plan market analysis and strategic action program, 2006.
- Lawrence, KS, retail database and development code economic impact analysis, 2005.
- I-55 Corridor Master Plan, Edwardsville and Glen Carbon, Illinois, 2004.
- Canal Street revitalization and visioning plan, economic development opportunities, retail tenant program, and pro-forma development projections, New Orleans, Louisiana (2004).
- *Kansas City Live!* development review for Missouri Department of Economic Development and MODESA, 2004.

EDUCATION

MS City and Regional Planning,
Emphasis on Public Finance,
Southern Illinois University at
Edwardsville, 1976

BS Business Administration,
Major in Economics
Miami University
Oxford, Ohio 1973

REGISTRATIONS

Certified Professional
Economic Developer, CEcD

American Institute of
Certified Planners, AICP

PROFESSIONAL MEMBERSHIPS

American Planning Association
Former Missouri Chapter President

International Economic Development
Council

Urban Land Institute, Associate

National Association for
Business Economics
Former St. Louis President

American Statistical Association
Former St. Louis Chapter President

CIVIC ACTIVITIES

Citizens for Modern Transit
Current Board Chair

FOCUS St. Louis board of directors
1995-2001, Treasurer
Task Forces:
- Co-Chair "21st Century Economy"
- Member "Workforce Housing"

New City School board of directors
1987-1991

Keller Graduate School of
Management
Business Economics Senior Faculty

United Way of Greater St. Louis
Research Committee 1990-Present

St. Louis Region Wise
Chair, Economic Indicators Work
Group

NAOMI SHANKER

Market and Financial Analyst

CAREER SUMMARY AND BACKGROUND

Ms. Shanker's expertise is in real estate market analysis, finance and economic analysis, and Tax Increment Financing projections. Her responsibilities include producing market studies, economic impact studies, financial projections, highest and best use analysis, and real estate development feasibility. She joined Development Strategies in 2005 after completing her MBA at Washington University.

Prior to joining DSI, she worked as an intern for a real estate development firm in downtown St. Louis where she generated financial projections for a potential retail store, conducted research on tax credit programs available in different states for expansion into new markets, and maintained project timetables for properties in development.

As a student at Washington University, Ms. Shanker was Vice President of the Real Estate Club, and a Teaching Assistant for two courses (Financial Accounting and Venture Capital and Private Equity). She was also a lead member of the organizing committee for the Olin Cup Competition, an annual business start-up competition organized by the Olin School of Business.

EXPERIENCE

Ms. Shanker is currently working on a wide range of assignments in both the public and private sectors. These include market and feasibility studies for public and private organizations; tax increment financing projections for municipalities and financial institutions, and economic impact analyses of projects in various metropolitan regions.

REPRESENTATIVE ASSIGNMENTS

- Market analysis and tax increment financing projections for redevelopment of Three Trails Center, formerly Bannister Mall, in Kansas City, Missouri.
- Missouri Downtown Economic Stimulus Act (MODESA) market studies and financial projections for projects in St. Louis and Lee's Summit.
- Fiscal Impact projections for commercial, industrial and residential developments; recent projects in St. Louis, Kansas City, and Blue Springs, Missouri.
- Economic and Fiscal Impact study for redevelopment of Goodyear Tire & Rubber Industrial site in Akron, Ohio.
- Market and feasibility analyses for redevelopment projects in downtown Oklahoma City, Anchorage, and Kansas City.
- Market study of the redevelopment potential of land surrounding Lambert St. Louis International Airport.
- Market Study and Tax Increment Financing Projections for Centene Center at Ballpark Village, St. Louis, Missouri

EDUCATION

Master of Business Administration,
Washington University,
Olin School of Business,
St. Louis, MO 2005
Concentrations in Finance,
Marketing and Strategy

Bachelor of Arts in Political Science,
Columbia University
Barnard College,
New York, NY, 1998

COMMUNITY SERVICE

Serve on the board for The Epstein
Hebrew Academy and for Ohr Atid,
Light of the Future, Inc.

Volunteer-Junior Achievement
Program, teaching elementary school
students about business.

KANSAS CITY LIVE! AND MISSOURI DOWNTOWN ECONOMIC STIMULUS ACT

Kansas City, Missouri

REFERENCE:

Robert Miserez
Executive Director
Missouri Development Finance
Board
Governor Office Building
200 Madison Street, Suite 1000
Jefferson City, Missouri 65102
(573) 751-2686
bob.miserez.mdfb@ded.mo.gov



In July 2004, the City of Kansas City, Missouri, applied to the Missouri Development Finance Board (MDFB) for assistance in financing a major redevelopment project in downtown Kansas City entitled Kansas City Live!

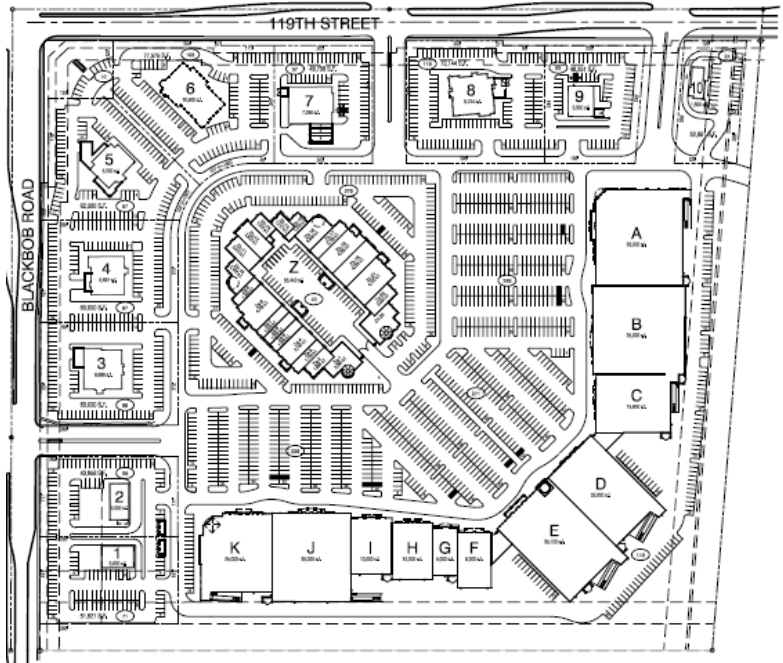
To be developed and operated by the Cordish Company of Baltimore, the scope of the project includes 425,000 square feet in the south loop area of downtown that would be developed as an entertainment, dining, and specialty retail center and would include new parking garages, public area improvements, site acquisition, and the relocation of some existing occupants. Select components of the application represented the first funding requests under the newly enacted (2003) Missouri Downtown Economic Stimulus Act (MODESA).

MODESA is, in effect, a “super” tax increment financing (TIF) program that enables the state to direct up to half of net new sales and include taxes in support of a project. Development Strategies and Peckham Guyton Alberts & Viets, also of St. Louis, were jointly retained to assist in the application review process. Our evaluation for the MDFB focused on market demand and supply, the reasonableness of proposed construction and development costs related to public financing, the substitution effect that might be caused within the state if retail sales are “shifted” from elsewhere to KC Live, and the capabilities of the developer to perform as planned. Based in part on our evaluation, the MDFB requested a great deal more information from the city and the developer. This aided greatly in the board’s unanimous approval of the application in late October 2004.

Because KC Live! is such a significant redevelopment project and because it is also the first funding request under MODESA, the application process will set an important precedent for future applications. The joint DSL/PGAV review report will be used to help ensure that high standards and rigorous oversight will contribute to a successful project and a successful, long-term economic development incentive.

REVENUE PROJECTIONS FOR
TRANSPORTATION DEVELOPMENT
DISTRICT: OLATHE POINTE
SHOPPING CENTER
Olathe, Kansas

Mr. James J. Lahay
Senior VP, Public Finance
Stifel, Nicolaus & Co.
One Financial Plaza
501 N. Broadway
St. Louis, Missouri 63102
(314) 342-4002



Olathe (o LAITH a) Pointe was proposed as a 350,000 square foot shopping center to be anchored by Sportsman's Warehouse and Marshall's on 119th Street at I-35 in Olathe, Kansas. The center's developer, through its underwriter, Stifel, Nicolaus & Company, commissioned Development Strategies to project likely annual retail sales revenues f based on the buying power in Johnson County and on the anticipated mix and types of retail merchants.

The purpose of the study was to determine the potential incremental sales taxes that could be generated to fund a transportation development district (TDD) which would support many of the transportation-related capital investments necessary for the site.

Three scenarios were created by Development Strategies to offer a range of probable sales revenues. The first was a most likely scenario that reflected the national median sales per square foot by merchant type as reported by the Urban Land Institute in their bi-annual publication, *Dollars & Cents of Shopping Centers*. Development Strategies had previously analyzed the economy and buying power of the market area and was able to adjust ULI's national medians to better reflect local economic circumstances. The other two scenarios offered high and low alternatives depending on how the market area might otherwise respond based on competition, marketing, and the unique character of Olathe Pointe itself.

LEE'S SUMMIT "CITY WALK"

Lee's Summit, Missouri

Reference:

Mr. Gary Bradley
Assistant to the City Administrator
City of Lee's Summit
207 S.W. Market
P.O. Box 1600
Lee's Summit, Missouri 64063
(816) 969-4636
Gary.Bradley@lees-summit.mo.us



The real estate development partnership of Greenpoint Development proposed to construct a mixed-use commercial project encompassing more than 2 million square feet of floor area in Lee's Summit, Missouri. The proposed development had three phases: (1) a large, stand-alone retail store, (2) a mixed-use lifestyle center called CityWalk, and (3) a second lifestyle center called The Village, which would include a hotel and conference center.

The City of Lee's Summit retained Development Strategies to provide them with a realistic view of the CityWalk development project. The City of Lee's Summit had previously commissioned a market study for the retail component of the project (1.65 million square feet). The market study concluded that there was, indeed, latent demand for additional retail development in Lee's Summit. DSI agreed with this conclusion and determined that CityWalk could be successful in Lee's Summit.

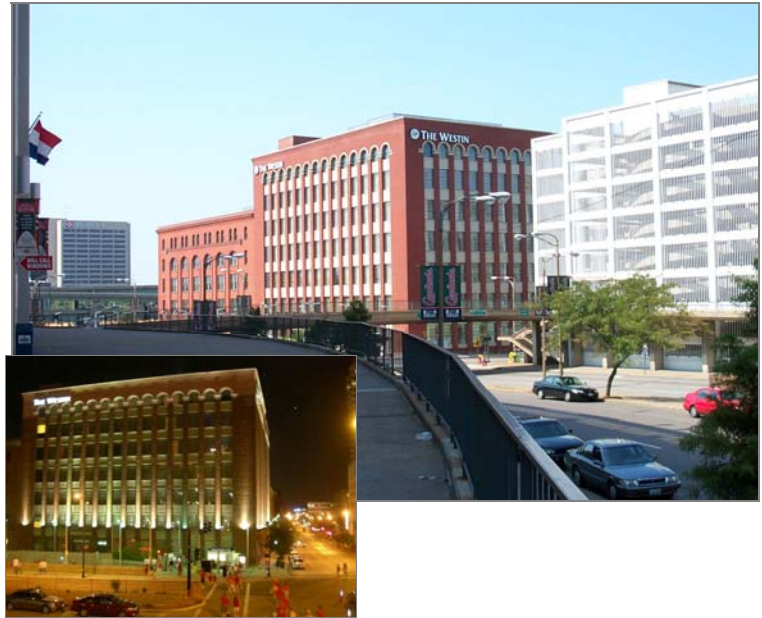
Development Strategies concluded that, with the information provided and with our independent analysis, the entire CityWalk project (all three phases) would generate an unacceptable internal rate of return (IRR) if it had no public sector financial support. Development Strategies also determined that local public sector support alone was insufficient to generate an IRR within the generally acceptable range. In our opinion, the project required additional public financial participation at the state level.

CUPPLES STATION HISTORIC RENOVATION ECONOMIC AND FISCAL IMPACTS

St. Louis, Missouri

REFERENCE:

Ms. Wendy Timm
Chief Operating Officer
Conrad Properties
165 N. Meramec,
Suite 400
Clayton, Missouri 63105
(314) 721-3202
wendy@conradprop.com



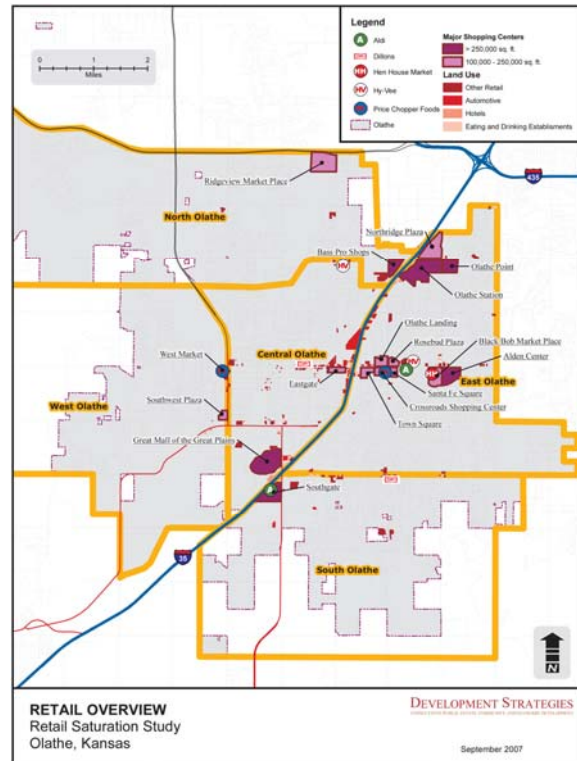
Cupples Station is a complex of nine historic warehouses occupying five city blocks adjacent to Busch Stadium in downtown St. Louis. The original cluster included 15 buildings developed in the late nineteenth century with a revolutionary conveyor system to move goods to and from underground rail cars. Age and the intrusion of highway ramps took a heavy toll on the structures.

But the late 1990s saw a resurgence in their value. Four buildings on one block were converted into a very high quality Westin Hotel. A supporting 800-car parking garage was constructed next to the I-64 viaduct to support further investment in rehabilitation. Historic Restoration, Inc. (HRI) of New Orleans has finished conversion of another building to affordable rental apartments and another is underway to becoming the offices of an advertising and public relations firm. In all, rehabilitation and adaptive reuse of six of the nine buildings is complete or underway and the remaining three have recently been purchased by an accomplished local developer of downtown properties.

Development Strategies conducted a market survey for downtown housing in 1994 that ranked Cupples Station as the preferred location for downtown housing. DSI later assisted the hotel developer (McCormack Baron Salazar) with an economic and fiscal impact study and a tax increment financing study. HRI later called on DSI to conduct a similar study for the proposed residential conversion. A principal need for the DSI study was to provide technical support for state income tax credits to fund the removal of asbestos and other lingering hazardous materials from the old buildings.

RETAIL SATURATION ANALYSIS Olathe, Kansas

Mr. Tim McKee
Executive Vice President, Economic
Development
Olathe Chamber of Commerce
142 N. Cherry, P.O. Box 98
Olathe, Kansas 66051-0098
(913) 764-1050



Olathe (o LAITH a) is the seat of Johnson County which is the most affluent county of the Kansas City metropolitan area. Long the fastest growing county, too, it has slowed its rate of growth but not the numbers and now has a population of well over half a million. Olathe is no stranger to this growth (76% population increase between 1990 and 2007 to just over 115,000) and is experiencing more retail development but also *changes* in retail development.

City and chamber of commerce officials became concerned that retail changes were happening too quickly and too haphazardly, so they commissioned Development Strategies to determine how saturated the market might be. We evaluated supply and demand factors, such as the amount of space by retail category, the purchasing power by household size and income, and the competitive conditions in surrounding cities.

Olathe contains about one-fifth of the county's retail establishments, a share that is consistent with its population share. But retail sales notably exceed this one-fifth share, indicating that Olathe is attracting many shoppers and diners from outside the city. All-in-all, however, Olathe's retail growth has been keeping pace with household growth.

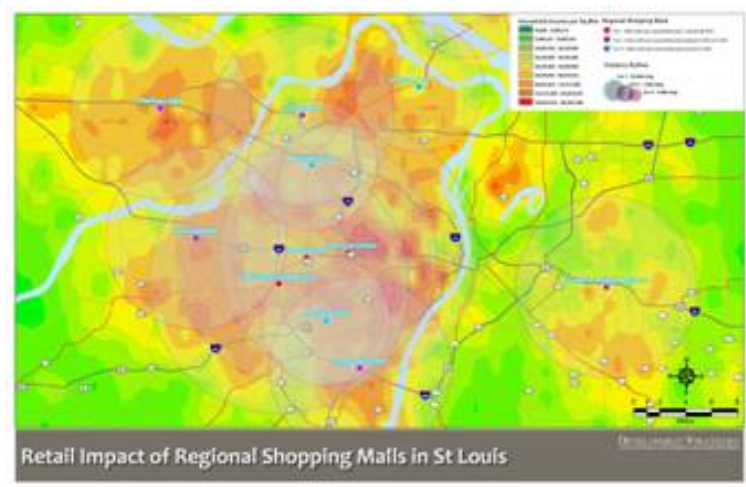
Moreover, its trends compare well to similar cities in other metro areas in some key retail measures, such as sales to effective buying income, location quotients, and pull factors. Indeed, these measures clearly show that Olathe is a net beneficiary in attracting more sales than its own population could support alone. Maintaining and perhaps expanding this regional position, which is important for serving a still-growing city and for supporting the city's tax base, now become important strategic issues for planners and public officials.

MERCANTILE EXCHANGE DOWNTOWN DEVELOPMENT

St. Louis, Missouri

REFERENCE:

Mr. Matt O'Leary
The Pyramid Companies
906 Olive Street, Suite 600
St. Louis, MO 63101
(314) 333-5338



Development Strategies was engaged to research and analyze the relevant market conditions in metropolitan and downtown St. Louis in the residential, specialty retail, hotel, and office real estate sectors. The conditions were compared to the seven proposed project components of the Downtown Core Project to determine timelines for absorbing various units and space, along with conclusions about achievable prices and rents. The project was recently designated as the Mercantile Exchange district.

DSI also conducted an economic impact study to show the net new sales the project would generate for the state of Missouri. We identified the key customer segments, including downtown residents, workers, visitors, and regional shoppers that will be served by Mercantile Exchange and quantified the potential retail spending each segment will bring to the project.

Our comprehensive market study showed that there was an increase in the number of hotel rooms and also in the number of total occupied hotel room nights in the downtown area and the number would continue to increase providing customers of Mercantile Exchange more places to stay. The study also indicated an interest in newly constructed office space downtown that would be quickly absorbed.

Our study also determined that the downtown area has frequent visitors from surrounding areas and these visitors would be likely customers of various segments of Mercantile Exchange. In addition, we were able to determine which of the regional customers can be expected to be a regular customer at the proposed development. Since the downtown area has undergone a significant improvement since 2000, we also highlighted trends within the market for each segment. Overall, retail demand from all of these segments was refined to estimate the potential sales per square foot of Mercantile Exchange in the current market and projected through 2015.

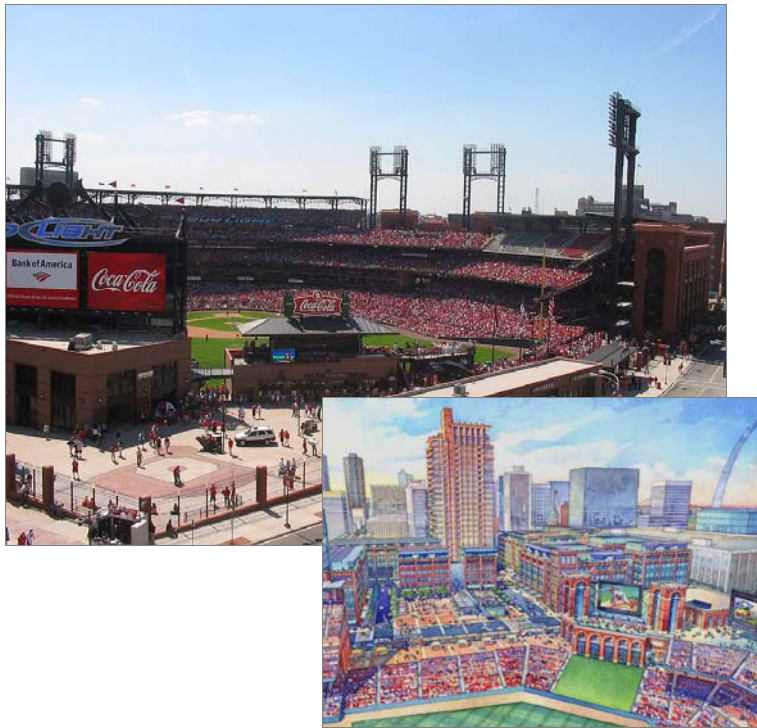
DSI also compared demographics of the most competitive malls in the St. Louis region to Mercantile Exchange. Our comparisons also included competitors in Kansas City and downtown Indianapolis, because these developments shared characteristics of the proposed retail development, including the urban location and their attraction to tourists as well as regional shoppers.

ST. LOUIS CARDINALS' NEW BALLPARK & BALLPARK VILLAGE

St. Louis, Missouri

REFERENCE:

Chase Martin
Development Director
Chase Company
800 Market Street
St. Louis, MO 63101
314.584.4665
chase@cordish.com



The St. Louis Cardinals professional baseball team has a storied history and has won the second greatest number of World Series championships—behind only the New York Yankees. The team's most recent home, the second Busch Stadium, was constructed in the mid-1960s as a leading revitalization project in downtown St. Louis. Built as a multi-purpose sporting facility, however, the stadium had become both functionally obsolete and expensive to maintain. The Cardinals' new Busch Stadium was completed in 2006, immediately south of former stadium site, utilizing limited public financial support.

The redevelopment of the former stadium site, named Ballpark Village, is in the planning stages. The developer, The Cordish Company, proposes to build a district consisting of a mix of entertainment venues, offices, and housing, all connected directly to the new ballpark via a plaza overlooking left-center field. Development Strategies was part of the initial planning team for the entire project assisting with the market study to evaluate land uses, economic impact evaluation, and the potential effects on tax revenues for local and state government.

A critical component of Ballpark Village will almost certainly be the tax increments generated by the combined project. Moreover, as a very successful baseball franchise, over a third of the Cardinals' fans each year come from outside the metropolitan area and 92 percent are from outside the City of St. Louis. This ranks the team as a crucial foundation for economic development in the city and region with the ability to attract so much "new money."