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October 16, 2017

Mr. Kevin Timony
Assistant Village Manager
Village of Grayslake
10 S. Seymour Ave.
Grayslake, IL 60030

Dear Mr. Timony:

Pursuant to our recent conversation, SB Friedman Development Advisors (SB Friedman) is pleased to present this proposal to the Village of Grayslake (Village) to provide development advisory services for the former Lake County Fairgrounds site (the "Site").

Background and Understanding

The approximately 106-acre Site is located at the northwest corner of IL Route 120 and U.S. Route 45. Its size, location, access and visibility make the Site a potentially attractive development opportunity in central Lake County. While substantial retail development was planned for the Site prior to the great recession, no redevelopment has occurred since the Fairgrounds were relocated in 2009.

It is our understanding that the Village, in cooperation with the Grayslake Business Partnership, issued a Request for Qualifications (RFQ) to identify qualified developers interested in pursuing redevelopment of the Site. The Village is currently seeking a mechanism to preliminarily evaluate developers' proposals, including anticipated requests for Village financial assistance. The Village has created a Business District (BD) for the Site, and anticipates that developers may request assistance in the form of BD tax reimbursement, Tax Increment Financing (TIF) revenue, sales tax sharing or other Village participation. The Village therefore seeks to understand the economic viability of a general potential mixed-use program on the Site to evaluate whether BD revenue is likely to be sufficient to cover any potential financing gap, or if additional assistance may be required.

It is our understanding that no preliminary development pro forma has been submitted by a developer, and the Village has not obtained recent market analysis, cost estimates or operating assumptions for any development concept. Based on our preliminary conversations, it appears that a mix of uses is likely to be contemplated for any future development.

SB Friedman proposes the following services to assist in the preliminary review of developer proposals:

- Conduct high-level market research and compile in-house, public and industry data to prepare project cost, revenue and return parameters for a mix of land uses

- Prepare development pro forma to evaluate project returns
- Estimate revenue potential from Business District
- Prepare technical memorandum documenting assumptions, analysis and anticipated need for public assistance for the prototypical development program

Scope of Services

We are anticipating using a preliminary prototypical development program provided by the Village for this assignment. This could be the development program proposed by a developer or a more general program the Village seeks for the Site. The scope steps and budget estimate assume the following land uses will be included in the development program:

- Retail (including inline space for professional office tenants)
- Multifamily residential (market-rate)
- Townhomes
- Single-family homes

If other land uses are contemplated, we will work with the Village to adjust the scope of services.

The pro forma developed by SB Friedman is intended to be used for a high-level assessment of the type and order of magnitude of Village financial assistance that may be required on the Site. The pro forma could subsequently be utilized for additional analysis of particular developer proposals on the Site, in concert with a more detailed review of developer assumptions regarding construction costs, operating revenue and expenses, and financing assumptions.

TASK 1: DEVELOP PROJECT COST, REVENUE, OPERATING EXPENSE AND RETURN PARAMETERS

1. Conduct Project Kickoff Call

We will hold a conference call/GoToMeeting with the Village to confirm and refine the project goals/objectives, the scope of work and timeline. We will discuss past and current efforts to redevelop the Site and confirm the development concept to be evaluated. We will also obtain and review background documents from the Village, including:

- Development proposals for the site (program and site plan, if available)
- Prior development plans for the Site
- Estimated infrastructure costs for the Site
- Any available data regarding Site value (e.g., appraisal, anticipated sale price, comparable sites)
- Recent market analyses conducted within the Village
- Recent/competitive development in the Village/central Lake County
- Any preliminary site assessments/Phase I environmental assessments
- Additional information to be determined

2. Identify Comparable Land Sales

Assuming no recent as-is appraisal has been conducted for the Site, SB Friedman will identify comparable land sales for the purposes of including an acquisition cost estimate in the development budget. We

anticipate working with Village staff to identify potential comparable sales, and will obtain sales information from Lake County and CoStar. We will estimate a sales price per square foot and apply it to the Site. *This figure is only an estimate for purposes of the analysis and should not be considered an appraisal or definitive indication of land value.*

3. Prepare Construction Cost Estimates by Land Use

For each of the real estate products indicated above, we will prepare hard construction cost estimates based on RSMeans construction cost information, comparable development projects, local industry sources and supplemental interviews with local developers. We will add order-of-magnitude soft costs, including architecture and engineering, permitting/entitlements and typical financing costs based on past experience and industry sources. Typical developer fees will be included based on SB Friedman's experience. We will assume for the purposes of the analysis that demolition of the existing buildings has occurred, or will incorporate an estimate from the Village for demolition.

Site preparation and infrastructure costs are highly variable and tied to specific Site conditions, and therefore cannot be estimated accurately using similar projects or industry sources. We have assumed that site preparation and infrastructure costs will be provided by the Village or by third-party engineers/architects. If the Village cannot estimate such costs, an engineer and/or cost estimator may need to be engaged to prepare preliminary estimates of costs for site preparation, stormwater and any needed infrastructure. The cost for an engineer and/or cost estimator is not included in our fee estimate.

4. Assess Pricing/Rents and Absorption by Land Use

We will identify recent new construction local/regional development by product type that are mostly completed and stabilized/sold out to estimate achievable pricing/rents and historical rates of absorption for each major product type within the development. We will supplement the list of recent competitive projects provided by the Village with additional projects identified through our own analysis, data from CoStar and Multiple Listing Service data. We will compile and synthesize data on rent structure, type and amount; sale listings and closed prices; building/development typology, quality and finish; square footage of units; location; access; and typical amenities. Based on the comparative advantages and disadvantages of the Site, we may make adjustments to pricing of competitive product for the proposed development. The absorption information will inform stabilization of each product type and achievable revenue during operations, and will also validate the overall assumed phasing of the project.

The market data collected in this step will be used to develop the revenue and absorption parameters for the pro forma; this analysis should not be considered a market study indicating that there is a demand for such product. SB Friedman is available to prepare a market study for any of the contemplated land uses as an additional service or modification to this scope.

5. Compile Operating Expense Parameters by Land Use

Typical operating expenses per square foot or unit will be compiled for each land use using SB Friedman's in-house database of past projects and industry sources such as Institute of Real Estate Management. If needed, this data may be supplemented by more detailed estimation of property taxes for the proposed development.

6. Compile Financial Return Parameters by Land Use

We will compile typical project return parameters by land use using benchmarks from our prior experience with similar projects and industry sources such as PricewaterhouseCoopers, Real Estate Research Corporation and RealtyRates. As described below, SB Friedman recommends evaluating only unleveraged returns on cost. We do not anticipate preparing detailed financing assumptions for the project, as such assumptions would be speculative at this stage of project conceptualization.

TASK 2: PREPARE DEVELOPMENT PRO FORMA AND EVALUATE PROJECT RETURNS

1. Prepare Development Pro Forma

Using the development program, construction timing/phasing, construction cost estimates, revenue and operating expense parameters and return parameters developed in Task 1, we will prepare a development pro forma for the Site. The pro forma model will be dynamic so that modifications to the development program, timing or key parameters will flow through without the need to manually adjust calculations.

2. Analyze Project Returns and Evaluate Overall Financing Gap

We will first evaluate the financial returns for the prototypical project without any public assistance to determine whether the project could achieve market-appropriate return levels without Village assistance. We anticipate evaluating the project on an unleveraged basis (that is, excluding financing assumptions) using the unleveraged IRR and yield on cost metrics. Because the project is hypothetical, these returns provide a more stable indication of the project's economics. We will weight the range of appropriate returns identified in Task 1 by land use for the project. If public assistance is required, we will determine the amount of public assistance needed such that the project would achieve market-appropriate levels of return.

TASK 3: ESTIMATE BUSINESS DISTRICT REVENUE POTENTIAL

1. Identify Prototypical Tenant Mix by Retail Typology

We will work closely with the Village in earlier steps to clarify the type of retail development contemplated for the Site (e.g., power center, junior boxes with inline retail, neighborhood shopping center) and understand whether any particular tenants have been identified by developers as likely prospects. We will then allocate the square footage of retail space to prototypical tenants (e.g., full-service restaurant, grocery store, salon) by retail typology (junior box, outlot, inline space, etc.) using SB Friedman's local and regional retail experience and data from sources such as International Council of Shopping Centers (ICSC) and CoStar.

2. Estimate Annual Sales by Tenant Type

Using industry sources such as ICSC, publicly-available annual reports for particular tenants and our in-house database of retail sales, we will estimate the annual sales for the development program by tenant type (e.g., limited-service restaurant, grocery store, general merchandise anchor tenant).

3. Prepare BD Revenue Projections

We will prepare sales tax revenue projections for the remaining life of the Business District on the Site, anticipated retail development program, construction timing and absorption pace developed in earlier tasks. The BD projections will assume inflation in retail sales over time. We will discuss with the Village whether there are any Village financing assumptions that should be incorporated in the projections (i.e., whether the Village would issue bonds or any improvements would be developer financed).

TASK 4: PREPARE TECHNICAL MEMORANDUM

1. Prepare Draft Memorandum

We will prepare a draft technical memorandum describing the assumed development program, data sources, analysis, assumptions, findings and conclusions regarding whether Village financial assistance beyond BD revenue is likely to be needed for development of the type analyzed. The memo will include tables documenting the key components of our analysis, including the financial gap analysis and BD revenue projections. The memo will also indicate any notable Site or development constraints identified through the analysis, proposed next steps and any additional analysis that may be needed.

2. Discuss Draft Memorandum with Village Staff

We will submit the draft memo for the Village's review and hold a conference call to discuss findings, answer questions and obtain feedback on any required edits.

3. Finalize Memorandum

We will incorporate edits and address comments from one consolidated round of Village edits and prepare a final version of the memo.

Potential Additional Services

SB Friedman is available to perform additional related services with additional budget authorization or under subsequent engagements, including:

- Presenting findings to Village Board or other group
- Conducting financial analysis of a developer's request for assistance
- Conducting market analysis to determine appropriate land uses for the Site
- Assisting in deal structuring and negotiation
- Projecting TIF increment from a proposed project
- Evaluating eligibility and designating Site as TIF district

Timeframe

We will work closely with the Village to meet any specific deadlines for the analyses, where possible. On the basis of the scope of the work outlined herein and our experience with similar projects, we estimate it will take approximately eight weeks to complete this work. The precise timing will depend in part on

the length of time it takes for the Village, Lake County and other potential data sources to provide key data for our analyses.

Fee Proposal

Professional fees for our services will be based on time required at the then-current billing rates of the SB Friedman personnel assigned to the project. The scope of the engagement and our experience with similar services indicate that our professional fees and expenses will total approximately **\$41,000**, as shown below and detailed in the Detailed Budget Estimate on page 7.

Task 1: Develop Project Cost, Revenue, Operating Expense and Return Parameters	\$ 21,890
Task 2: Prepare Development Pro Forma and Evaluate Project Returns	8,730
Task 3: Estimate Business District Revenue Potential	4,320
Task 4: Prepare Technical Memorandum	4,985
<u>Reimbursable Expenses</u>	<u>1,100</u>
TOTAL SB FRIEDMAN FEES AND EXPENSES	\$ 41,025

The above fee estimate is based upon the work steps described in the Scope of Services, and the time budgets shown in the detailed budget on the following page. The fee estimate has been prepared based on certain assumptions as to the time required, the secondary data sources to be used and the primary research needed for the multiple land uses and product types. The fee estimate is subject to upward revision if the engagement entails more time than estimated due to problems that are encountered which could not reasonably have been foreseen at the commencement of the engagement, or if the scope is changed. In this event, we will discuss the matter with you so that a mutually agreeable revision may be made.

Actual billings will be based on time expended at the following hourly rates:

President	\$385
Practice Leader	\$350
Senior Vice President	\$255
Vice President	\$220
Associate Project Manager	\$195
Associate	\$155
Research Associate	\$140
Editor	\$125
Intern/Data Entry/Support	\$ 95

These rates will be in effect until December 31, 2017 except in the case of promotions of individuals. After this date, rates are subject to adjustment. Based on the assumed staffing for this project, the average overall billing rate is estimated to be approximately \$186.

Travel, publications, maps, telephone toll charges, photocopies, report reproduction, color reproduction, faxes, messenger and express services, data purchased specifically for this project, use of company-owned or -licensed data bases, and other out-of-pocket expenses will be billed as incurred without mark up.

Travel time in excess of normal commuting time at the beginning or end of the day will be billed. Travel time during business hours will be billed in full.

Additional meeting time and additional services, beyond what has been included in the budget, will be billed at then-current billing rates.

Detailed Budget Estimate

	<i>Person:</i>	Senior Vice	
	<i>Rate:</i>	President	Associate
		\$ 255	\$ 155
TASK 1: Develop Project Cost, Revenue, Operating Expense and Return Parameters			
1 Conduct kickoff meeting and review background data		4	6
2 Identify comparable land sales		4	8
3 Prepare construction cost estimates by land use		8	24
4 Assess pricing/rents and absorption by land use		12	32
5 Compile operating expense parameters by land use		4	8
6 Compile financial return parameters by land use		4	4
Subtotal Hours for TASK 1	118	36	82
Subtotal Professional Fees for TASK 1	\$ 21,890	\$ 9,180	\$ 12,710
TASK 2: Prepare Development Pro Forma and Evaluate Project Returns			
1 Prepare development pro forma		12	24
2 Analyze project returns and evaluate overall financing gap		4	6
Subtotal Hours for TASK 2	46	16	30
Subtotal Professional Fees for TASK 2	\$ 8,730	\$ 4,080	\$ 4,650
TASK 3: Estimate Business District Revenue Potential			
1 Identify prototypical tenant mix by retail typology		2	4
2 Estimate annual sales by tenant type		2	8
3 Prepare BD revenue projections		2	6
Subtotal Hours for TASK 3	24	6	18
Subtotal Professional Fees for TASK 3	\$ 4,320	\$ 1,530	\$ 2,790
TASK 4: Prepare Technical Memorandum			
1 Prepare draft memorandum		6	16
2 Discuss draft memorandum with Village staff		1	1
3 Finalize memorandum		1	2
Subtotal Hours for TASK 4	27	8	19
Subtotal Professional Fees for TASK 4	\$ 4,985	\$ 2,040	\$ 2,945
Total Hours	215	66	149
Total Professional Fees	\$ 39,925	\$ 16,830	\$ 23,095
Reimbursable Expenses	\$ 1,100		
TOTAL BUDGET ESTIMATE FOR TASKS 1 THROUGH 4	\$ 41,025		

Invoices will be rendered monthly as our work progresses for services and costs incurred. Invoices are payable within 30 days.

If at any point the decision is made to discontinue our services, our fee will be based upon the actual time expended and out-of-pocket costs incurred to that date.

Acceptance Procedures


We look forward to this opportunity to assist the Village of Grayslake on this project. To indicate your acceptance of this proposal, please sign a copy of this letter and return it to us as authorization for us to proceed.

The attached Limitations of Engagement apply to this project.

Sincerely,



Fran Lefor Rood, AICP
Senior Vice President

Accepted:   2-5-18
Signature Date

Michael J. Ellis Village Manager
Name Title

LIMITATIONS OF ENGAGEMENT

Our deliverables will be based on estimates, assumptions, and other information developed from research of the market, knowledge of the industry, and meetings during which we will obtain certain information. The sources of information and bases of the estimates and assumptions will be stated in the deliverables. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our deliverables, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the deliverables to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, additional competitive developments, changes in assessment practices, interest rates, and other market factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Preliminary Business District projections are anticipated to be prepared under this engagement for the purpose of estimating the approximate level of increment that could be generated by proposed projects and other properties within the Business District boundaries. These projections are intended to provide an estimate of the revenue potential related to a hypothetical project.

As such, our report and the preliminary projections prepared under this engagement are intended solely for your information, for the purpose of evaluating development proposals, and should not be considered a recommendation to issue bonds or other securities. These projections should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors, without our prior written consent. Our work products are not intended to constitute advice for the client to issue (or refrain from issuing) specific municipal securities.

We acknowledge that upon submission to the Village the report may become a public document within the meaning of the Freedom of Information Act. Nothing in these limitations is intended to block the disclosure of the documents under such Act.