MEMORANDUM

To: Kasey Dunlavy, Sandy City Economic Development

From: Jason Burningham, Lewis Young Robertson & Burningham, Inc.

Date: April 13, 2022

Re: Summit @ The Cairns 2nd Year SIB Loan Payment Request

In its capacity as financial advisor to Sandy City (the "City") and the Redevelopment Agency of Sandy City (the "Agency"), Lewis Young Robertson & Burningham, Inc. ("LYRB") has been asked to review and determine the justification of Raddon Development's (the "Developer") request for the Agency to pay and write-off the second year's payment of the City's $15.00M SIB Loan on the parking structure for the proposed Summit @ The Cairns mixed-use commercial, hospitality, office, and residential Development (the "Development"). This memo includes a brief overview of the approved participation amount and the additional participation request, and an analysis of the justification of the additional request.

LYRB's conclusion is that the additional year's payment concession by the Agency to the Developer is justified by virtue of market economics, return on investment thresholds, and anticipated revenues anticipated to be created by this Development for the Developer. The following outlines the specific variables and financing components used to evaluate and derive this conclusion.

APPROVED PARTICIPATION AMOUNT AND ADDITIONAL PARTICIPATION REQUEST

LYRB completed a Feasibility and Gap Analysis of the Development and participation request in October 2021. That analysis discussed the various construction financing constraints of the Development, including the loan-to-value (LTV) ratio of 65% and the needed **20.00% IRR** that private investors in high-end hotels require to justify investing in a hotel project. Using the outstanding construction cost of $43.01M, and assuming a 20% IRR, the maximum level of private investment is approximately $28.00M. Which leaves a remaining balance of $15.00M, which is the amount of the public participation request. If the Developer did not receive any public participation and needed $43.01M of private investment, the IRR would drop to 9.7%. This level of IRR would not attract capital market investment and the hotel development would not be feasible based on the level of risk associated with this type of high-end lodging and hospitality.

The justification for the public participation is $9.00M for the hotel's 510 parking structure stalls and $6.00M for the 10,000 square feet of convention space, which convention space has been an important consideration for the Agency and City. Radisson Blu Hotels typically have around 2,500 square feet of convention space, however the Agency and City have requested a minimum of 10,000 square feet, which is estimated to add an additional $6.00M in extraordinary costs.

To assist with overcoming the above construction constraints, the City is in the process of undertaking a $15.00M SIB loan. The SIB loan between the City and State will be 15-year financing structure. The 15-year loan will be paid back in part by 85% of the tax increment generated by the Development, and part by other tax increment currently being generated or anticipated within the Project Area. The Developer will enter into a Loan Agreement with the Agency to repay the SIB Loan in a 15-year timeframe. The actual terms and conditions of the loan will be outlined in a future loan agreement between the Agency and Developer.

As part of their public participation, the Agency will pay and write-off the first year of the loan. Originally, the Agency also committed to make the second year's payment of $1.15M, and then amortizing the amount over the remaining 13-year loan period.

In early 2022, due to COVID-19 impacts on the market values of hotels and additional construction inflation, the Developer requested that the Agency consider writing off the second-year payment as well, and not requiring it be paid by the Developer over the remaining loan period.

ADDITIONAL PARTICIPATION REQUEST JUSTIFICATION

The Developer's original pro-forma included a terminal capitalization rate (Exit Cap Rate) of 6.00%, which generated an IRR of 20.8%. In late 2021, HVS, a leading global hospitality firm, conducted a feasibility study for the Developer and determined that due to the negative impacts that COVID-19 had on the hospitality industry, including construction cost inflation, the Exit Cap Rate should be increased to 7.00%. Increasing the Exit Cap Rate decreased the IRR from 20.8% to 16.9%.

TABLE 1: IRR IMPACT OF EXIT CAP RATE INCREASE

	AMOUNT
2020 Exit Cap Rate	6.00%
2020 Projected Total Profit (Year 5)	$36,872,846
Private Investment Capital	($28,010,588)
2020 IRR to Investor	**20.8%**
2021 Exit Cap Rate	7.00%
2021 Projected Total Profit (Year 5)	$27,236,865
Private Investment Capital	($28,010,588)
2021 IRR to Investor	**16.9%**

This substantial drop in IRR would make it difficult to attract capital market investment and the hotel development will likely not be feasible. However, increasing the public participation by an additional $1.15M will increase the IRR to 18.01%, which the Developer and its lenders and equity participants have indicated would be acceptable for the perceived risks being taking on this Development.

TABLE 2: IRR IMPACT OF ADDITIONAL PUBLIC PARTICIPATION

	AMOUNT
Outstanding Construction Costs	$43,010,588
Public Participation	$16,151,926
Private Investment Capital	$26,858,662
2021 Projected Total Profit (Year 5)	$28,415,791
2020 IRR to Investor	**18.01%**

CIVIC CENTER NORTH CASHFLOW

Another potential concern with providing an additional incentive to the Developer is the available cashflow within the Civic Center North Project Area (the "Project Area"). Using the 2021 assessed valuation of $395,230,696, and latest participation rates, the Project Area will have an annual average of $1.96M in available cashflow during the remaining 13-year TIF participation period. The projected cashflow is sufficient to cover the additional $1.15M incentive request and fund the projects identified in the Agency's capital facilities finance plan.

LYRB

CONCLUSION

Based off the completed analysis and the evaluation provided above, LYRB believes that the additional public participation request of $1.15M is justified and necessary to achieve the density and desired uses of the area. Without public participation, the Developer would not be able to build the hotel and would need to develop a different use that requires less IRR, likely additional multi-family units which would not generate the same level of economic tax base and benefit to the taxing entities.