

DATE: September 13, 2016
TO: Noelle Mackay, City of Burlington, Vermont
FROM: Abe Farkas, Matthew Craigie,
SUBJECT: BURLINGTON TOWN CENTER – DEVELOPER CAPABILITY AND PRO FORMA REVIEW

Background and Purpose

ECONorthwest was engaged in 2015 to advise the City of Burlington, Vermont regarding the redevelopment of the Burlington Town Center (BTC). The BTC is a substantially sized urban mall located in the core of downtown Burlington. In 2013, the BTC was purchased by a private developer, who has since initiated a plan for a major reconstruction of the mall facility, including a significant expansion of the commercial space at the property, the addition of a multifamily residential component which includes both affordable and student housing as well as market rate units, creation of structured parking, and a reopening of currently vacated city streets. While the project is designed for two phases, the focus is on phase one which includes 90% of the square footage as well as all the public right of way improvements.

ECONorthwest regularly provides analysis and consulting services for public/private redevelopment projects around the country, and has significant experience working on either side of these deals, be it with public agencies or private real estate developers. ECONorthwest's reputation is based on its objective approach to each project and its unbiased recommendations to its clients.

The primary goal of this project is to assess the private developer's development capacity to successfully execute the redevelopment of the BTC, and also to vet the feasibility of the redevelopment plan. This memorandum summarizes ECONorthwest's work to date, which includes: review of preliminary development documents, preliminary development financial pro forma, anticipated development costs, and documentation pertaining to the private developer's experience, capability, and the financial capacity of the development team.

ECONorthwest has just received a copy of a third party feasibility study regarding the BTC and is in the process of reviewing its methodology and findings. A subsequent memorandum will address ECONorthwest's assessment of this study and its alignment with the developer's development assumptions and projections.

The reader should note that while the private developer has been forthcoming in disclosure of project documentation, and background information, ECONorthwest is only able to comment on information received and cannot speculate on, or make assumptions about, aspects of the project, or the developer's history or capacity for development whereby ECONorthwest has not received or reviewed the proper documentation. Furthermore, it is important for the reader to recognize that all of the project related projections (e.g. costs, rents, revenue, returns...) are preliminary development estimates and subject to change. This is typical of any development

project, as market conditions, legislative actions, and other unforeseen actions and events can arise at any time and have an impact on the project.

Development Capability of the BTC Project Team

The Burlington Town Center redevelopment is being spearheaded by Devonwood Investors LLC, a private developer and property owner based in New York City, with an office in Burlington. Devonwood purchased the BTC property in 2013 with the plan to reposition and redevelop the mall. Leading the project at Devonwood is Mr. Donald Sinex, Senior Managing Director. Mr. Sinex has over 35 years of experience in real estate finance and investment including the purchase, repositioning, and redevelopment of significant projects.

Mr. Sinex is the primary partner in the BTC project and oversees all aspects of its execution, including; developing the project scope, team, and finances, assembling capital partners, negotiating contracts, and representing the project to public agencies and private partners. Prior to forming Devonwood Investments in 1997, Mr. Sinex worked for JMB Realty, a large commercial real estate development and investment firm based in Chicago. He was a senior executive and managed the New York City office of JMB. While at JMB, Mr. Sinex was personally involved in numerous projects at the same scale or larger than the BTC project. These include mixed use, retail, and office properties in New York, Boston, and the Washington DC area. Mr. Sinex provided a sample list of these projects, the last of which was complete 10 years ago. A list of Mr. Sinex's projects was sent to the City previously.

All of the substantial projects that Mr. Sinex managed while at JMB Realty involved careful and lengthy coordination with local and regional government bodies in order to gain approvals, entitlements, and meet public sector project related goals. It should be noted that all of these projects were privately financed, and the BTC is the first project that Mr. Sinex has been involved with that uses public dollars as a project source, in this case tax increment finance dollars.

In addition to the projects he managed at JMB Realty, Mr. Sinex has been the owner and operator of the BTC since the acquisition of the property in 2013.

Mr. Sinex has shown a commitment to work with ECONorthwest to provide information regarding his creditworthiness and the creditworthiness of his development partners prior to signing a binding development agreement with the City. ECONorthwest inquired about Mr. Sinex's finances, tax history, and other documentation regarding his personal financial capacity to execute the BTC project. ECONorthwest was not provided with most of this documentation, however, the BTC project is primarily funded through non-recourse debt, and is collateralized by existing assets (mainly, the existing BTC itself). For these reasons, Mr. Sinex's personal finances and tax history are not necessarily a strong indicator of a potential for project default.

Furthermore, it is not unusual for real estate developers to use little of their own personal equity in development deals. In the case of the BTC, Mr. Sinex provided equity in the

acquisition of the mall property. He leveraged that investment by using that land to secure more equity via a ground lease for the new larger mixed use development to a third party. The ground lessor is an established entity that has a long history of providing equity in exchange for ground lease payments.

Feasibility of the Development Plan

This section evaluates the financial performance of the proposed redevelopment project. The primary objective of this task is a review of the developer's preliminary pro forma analysis to verify the basic assumptions (e.g. costs, rents), understand the developer's projected returns and structure of returns to capital partners (equity providers), and also to ultimately gauge the risk profile of the proposed development and understand how the developer intends to ameliorate this risk thorough pre-leasing, guarantees, contracts, or other measures.

In a forthcoming memorandum, ECONorthwest will comment on the third party feasibility study and how its findings compare or contrast with the developer's own financial projections.

Pro Forma Review

ECONorthwest reviewed Devonwood's financial pro forma dated August 29th, 2016. Key takeaways from our review include the following:

The BTC financial pro forma contains:

- a reasonable project cost given the scale and complexity of the project;
- project financial sources (equity and debt) that are in line with proposed projects uses;
- conservative commercial and residential rental rates that are aligned with their market segments;
- conservative project expenditure projections;
- a favorable but achievable loan interest rate given preliminary tenant commitments;
- and, positive project returns to investors that adequately exceed industry standards.

Financial Assessment

The Burlington Town Center redevelopment is not a speculative development project. Meaning, rather than taking a "wait and see" approach to fill the new proposed spaces, the developer has been actively recruiting tenants to be a part of the project. To date, the developer has a number of Letters of Intent (LOIs) from a several interested candidate tenants. ECONorthwest has reviewed these documents and will also be reviewing lease agreements as they are signed in the next few weeks. The candidate tenants are primarily large institutional users that should be capable of paying the rents required to support the new space and who are also likely to sign long term leases. Having LOIs in hand, especially with credit tenants is a strong hedge against development risk. It should be noted that while a significant portion of space has achieved LOI status, the developer needs to convert these LOIs into leases and continue seeking tenants to fill these remaining empty spaces.

Examining a project's pro forma requires an understanding of the inputs and outputs of the financial model in the context of the local real estate market. Inputs include projected costs, rents, interest rates, and other temporal metrics that affect the cash flow of the project over time. The outputs include the cash flow itself and the projected returns to the various capital and equity partners.

The pro forma inputs for the BTC appear to be conservative in relation to ECONorthwest's understanding of the local market. To give one example of this moderate approach, the pro forma is able to achieve appropriate returns using office rents that are at, or below, current market rates. This indicates sensitivity to a potential market fluctuation and is a positive indicator of the developer's thoughtfulness about building a project that is more likely to be a success should some of the model inputs change as the project moves forward.

Development costs are one of the most important inputs in a financial pro forma. The basic relationship between project costs and rents is one of the strongest indicators of project outcomes. The developer has chosen a general contractor (GC) to construct the project. This contractor is a well-respected local firm with experience completing larger scale complex projects. The GC has provided the development cost numbers used in the pro forma. Given their reputation and experience, these cost numbers are likely accurate to local market conditions. Furthermore, the developer is negotiating a contractual structure with the GC that contains measures to control cost overruns (a guaranteed maximum prices), and guarantees project completion. Overall, the project costs appear to be sound and carefully considered by the developer.

Another key input into a financial pro forma is the interest rate on the primary project loan. The BTC pro forma uses a comparably lower interest rate. When questioned about the rate, the developer indicated that his proven experience and existing relationships with lenders as well as the nature of the tenants he's in the process of attracting, enable him to secure lower interest rate.

Key Findings

ECONorthwest continues to have a productive dialogue with Mr. Sinex regarding his real estate development experience and capability. In an additional forthcoming memorandum, ECONorthwest will comment on a third party feasibility study that has been commissioned to shed further light on the relationship between the developer's projections and Burlington area market conditions such as absorption rates for office and residential space, and current market rents for new multifamily and commercial buildings.

The following are a few of the key findings from our investigation into the development capability of Devonwood Investors LLC and also regarding our assessment on the developer's pro forma based on information ECONorthwest has reviewed to date:

- The project developer, Mr. Sinex, has considerable real estate development experience with large scale complex projects in three east coast cities and has developed strong

working relationships with financial institutions as well as experience navigating through the development approval process.

- Based on preliminary construction costs provided by an experienced local contractor, conservative rent projections provided by the developer and informed by his current experience in the market, as well as conservative projections of expenses into the future, the project appears to be able to provide market rate returns capable of attracting sufficient equity and debt to construct phase one of the project.
- The developer has approached the project with appropriate caution. Key indicators of this careful approach include; the high level of pre-leasing activity, the conservative financial pro forma model, preliminary arrangements for a ground lease to provide necessary additional equity, and the proposed contractual structure with the general contractor.
- Given the project's location, proposed mix of uses, and projected amenities, in addition to the financial factors cited above, it should be able to achieve financially viable performance.

DATE: September 23, 2016
 TO: Noelle Mackay, City of Burlington, Vermont
 FROM: Abe Farkas, Matthew Craigie,
 SUBJECT: BURLINGTON TOWN CENTER – DEVELOPER CAPABILITY ADDENDUM

This addendum is in response to questions raised during the September 19th 2016 City of Burlington Board of Finance meeting regarding the memorandum provided by ECONorthwest to the City for review. Here we answer two specific questions raised by board members. These questions are:

- What documents did you request from the developer; what documents did you receive; and which documents were withheld and why?
- Elaborate on the developer’s project history. Which projects has he completed; what role did he play with these projects, and how were they successful?

Furthermore, we also address two other inquires raised by the Board of Finance and Burlington City Councilors. These are:

- Through a Google search, one can find the developer’s name associated with a bankruptcy. What is the story behind this event and how was the developer involved?
- What do personal references say about the developer’s project history and development capability?

Question 1 – Documents Requested and Received

The following table summarizes documents requested by ECONorthwest regarding the developer’s project capability, finances, and project related information.

Documentation Requested	What is this documentation and why it was requested?	Did ECONorthwest receive and review this documentation?	If received, was the documentation satisfactory? And if not, why was it not provided or satisfactory?
Business Structure Info	To understand how the businesses executing the project are arranged	Yes	The documentation was satisfactory
List of major project owners	To understand the who the major partners are in the deal	Yes	The documentation was satisfactory
Sources and uses of project funds	Explains where BTC funds are coming from and how they will be deployed	Yes	The documentation was satisfactory

Five year financial projection	Illustrates cash flows and is important to understand project feasibility	Yes, received a ten year projection	The documentation was satisfactory
List of all commitment letters to date	Outlines anticipated commitments by lessees and potential lessees. Provides an understanding on status of committed space in the project.	Yes, Letters of intent (LOIs) were received as well as outreach correspondence with other potential lessees.	The documentation and follow up conversation with the developer indicate a high percentage of space in the BTC has preliminary commitments to lease by interested and suitable potential tenants.
Detailed preliminary financial pro forma	Details cash flows, project inputs, and returns. This is key information for understanding whether the project is likely be financially successful.	Yes	The documentation displays a prudent and conservative approach by the developer to the project's financial planning.
Any record of bankruptcy in the past 10 years	Outlines bankruptcies by developer and project partners. Helps understand financial history.	Yes	The documentation required follow up. See discussion below.
Are the key owners taxes current?	Outlines project partner's personal financial responsibility	The developer did not provide personal tax or financial information. He has shown a willingness to work with ECO to illustrate that this item is satisfactory.	As this is highly sensitive information, the developer declined to provide this documentation to ECO, but is willing to send references from people that can vouch for their satisfactory completion prior to a development agreement being signed.
Detailed project cost estimation book	A detailed report from a general contractor that itemizes project related costs.	Yes	The project cost book was provided by a respected local contractor. Given this local knowledge, and ECONorthwest's understanding of the Burlington market, the documentation was satisfactory.
Detailed personal financial information; including, collateral for	This information is typically used for project underwriting by lending institutions. It helps	ECONorthwest received a summary of some of this information. We did	The documentation received by the developer provided information on how he's

<p>the BTC, existing loans, Business balance sheets, tax returns, and personal financial statements</p>	<p>understand the financial health of development partners.</p>	<p>not receive all of this information.</p>	<p>raising sufficient equity for the project and noted that the project loan would be non-recourse. As noted previously he declined to provide documentation on personal financial statements, but has shown willingness to provide reference material summarizing its satisfactory nature. This is not an uncommon practice with high net worth individuals and a practice ECONorthwest is familiar with.</p>
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Question 2 – The Developer’s Project History

The developer has experience working on a number of large scale complex development deals. The following information was provided by Mr. Sinex regarding projects that he worked on while with JMB Realty:

Mr. Sinex has more than 35 years of experience in real estate investment and development. Mr. Sinex was a senior partner and principal in the real estate investment and development firm JMB Realty Corporation, headquartered in Chicago. JMB Realty is one of the largest real estate investment and development firm in the US with extensive holdings in multifamily, retail, missed use and office projects around the US, including substantial holdings in New York, Boston and Washington DC. Mr. Sinex was personally involved in many large mixed use, retail and office building projects as a principal and as a partner at JMB Realty from concept to completion, including, as a sample of these projects, the following:

- *245 Park Avenue- a 1,800,000 square foot office building project located at 46th and Park Avenue in New York City. The acquisition and renovation of this building was completed at a cost of more than \$450 million dollars. The building has substantial ground floor retail and is the home to a dozen fortune 500 companies. The project was developed in a partnership with Olympia & York and now is co-owned with Brookfield Properties- one of the largest publicly owned real estate companies in the world.*
- *237 Park Avenue- a 1,150,000 square foot office and retail building located at 45th and Park Avenue in New York City. The acquisition and renovation of this building was completed at a cost of more than \$350 million and was a part of a three building acquisition completed by Mr. Sinex on behalf of his firm JMB Realty Corporation. The old industrial building once owned by NY Central railroad was redeveloped into a first class office building with a large atrium dedicated to retail use including shops and restaurants. The development was a partnership between Olympia & York and the property has been sold at this point to a third party.*

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- *767 Third Avenue- a 300,000 square foot office building located at 48th and Third Avenue in New York City. This project included acquiring an existing older apartment building, demolishing half of the apartment building thereby creating a site for the development of the office building, and renovating the residential building and selling the renovated units as condominium homes and then erecting the 767 office tower. The project cost \$100 million. The project was co-developed with the William Kaufman Organization of New York.*
 - *900 Third Avenue- a 500,000 square foot office building development located at 54th and Third Avenue in New York City. The project included land assemblage and development of an office tower over street level retail. The project cost \$150 million.*
 - *17 State Street- a 500,000 square foot office building located in lower Manhattan on State Street. The project included acquisition of an SRO building, demolition of the SRO and development of the office building. The project cost \$160,000 million. Property was developed in a partnership with the William Kaufman Organization of New York and it was sold to Teachers Insurance & Assurance Association of New York.*
 - *1211 Avenue of the Americas- a 2 million square foot office tower with concourse and plaza retail located on 48/49th Street on 6th Avenue (Avenue of the Americas) which is a part of the retail underground in Rockefeller Center. The project included acquisition and repositioned of the office tower and the conversion of 75,000 square feet of Concourse space to high traffic retail including shops restaurants and cafes. The project cost \$350 million. Property was sold by JMB Reality in 1996 to another party.*

In each case cited above, the development required permits and approvals from both the City of New York building department and that required extensive collaboration with local Community Boards, and in a few cases the consent and approval of the NYC Landmark Preservation Commission as well as the City Planning and Zoning commission. In each case, a careful integration of private and public interests was part of the process as bonus development rights were awarded in return for the inclusion of public amenities such as public plazas, parks and gallerias.

- *Copley Place- a large mixed use project in the back-bay section of Boston. The project included two hotels, a 1,000,000 square foot shopping center with four anchor apartment stores, a 2,000 car garage and 800,000 square feet of office space. The project cost more than \$850 million. This project was developed by an affiliate of JMB Reality and Mr. Sinex worked for the senior partner managing the project. This development was a large urban project developed in conjunction with the State of Massachusetts, the City of Boston and the Mass Transit Authority in a classic private and public partnership.*
- *Brandywine Concord Mall- a 650,000 square foot shopping mall located in New Castle County Delaware. The project included acquiring an outdoor community center anchored by a discount department store and converting it to an enclosed regional mall with three anchor department stores and 400,000 of retail shops, restaurants and specialty retailers. The project required extensive re-zoning and cooperation with the zoning and planning commission of the county and the State of Delaware. The project cost \$100 million.*

When asked to elaborate on his roles on a few of these projects, Mr. Sinex responded:

First understand that I was a senior officer of JMB having joined them in 1978 after graduating from Harvard. I was assigned the role to open and manager our NYC office in 1981. Climbing through the ranks I became a Senior Vice President shareholder and partner in JMB. JMB was a flat organization in management style and I worked exclusively with Neil Bluhm the CEO and the B in JMB. This was due to the size and importance of the deals in NYC and my own capabilities.

17 State Street

- *I identified this potential development- underutilized property in Downtown NNYC at the tip of battery park.*
- *I negotiated and acquired the land /property- it was an SRO owned and occupied by the Seaman's Church Institute.*
- *I planned the development project with Emory Roth (Architect's).*
- *I brought in a co-developer partner (Wm. Kaufman Organization of NYC) as a 50/50 partner.*
- *I negotiated the acquisition loan and thereafter a construction/permanent loan with TIAA.*
- *I was the project manager from the JMB side overseeing the development, the development budget and leasing of the project along with our 50/50 partner Mel Kaufman.*

1211 Avenue of the Americas

- *I identified the opportunity to acquire the Celanese building owned by the Shell Pension Trust of the Netherlands.*
- *I negotiated the acquisition and laid out the strategy to quantified the intrinsic value of the building. The strategy was to buy out the lease held by the Celanese corporation an industrial chemical manufacturing firm which no longer occupied the space in NYC.*
- *The building was acquired and I planned an renovation program for the lobby, plaza and mechanical systems (\$30 million).*
- *I negotiated and reacquired the Celanese lease premises (550,000 sf) (\$16 million) and released the space to Rupert Murdoch's Fox TV Cable and news network. 1211 is today the home of FOX.*

The other assets highlighted are all similar in tale. My involvement in each property/project was from the very beginning (identification) through negotiation and structuring, closing and operating including the strategy and vision for each asset. Over my career as already mentioned I have been involved in retail multifamily and office development totaling \$6-7 billion dollars.

ECONorthwest followed up with questions about more recent project history. Mr. Sinex indicated that he had been a participate in a number of development projects smaller than the BTC project in recent years, including land development deals overseas, and residential projects. He noted that the BTC is the first project of significant size that he has undertaken since his time at JMB Realty, and that it's the first project initiated by the Devonwood LLC.

ECONorthwest also followed up regarding Mr. Sinex’s involvement with the LL Bean transaction. Mr. Sinex indicated that he conducted every aspect of the transaction from initial outreach with LL Bean to contract negotiations.

Bankruptcy History

There has been discussion regarding a bankruptcy related to the developer that was identified by a member of the public and raised in a public forum in Burlington. ECONorthwest questioned Mr. Sinex about this bankruptcy. His response was as follows:

“OTS was a Netherlands based OLED technology company that was acquired by another company that I had made an investment in years ago. The parent company was a Chinese company and I knew the CEO of the Chinese company from Harvard. OTS was acquired by the Chinese company in 2009 or so. In 2015, the Chinese company decided to close the Netherlands company and was advised by counsel to put it into bankruptcy in the Netherlands as the best and most efficient way to close it due to Netherlands employment laws. In 2015 OTS was closed. I did not ever serve on the Board of either OTS or the Chinese company but I was asked to serve as an interim CEO of OTS in 2013 which I did and after a year I was replaced.

...I was an investor not a decision maker nor a Board member of OTS nor the parent Chinese company and the OTS company was closed by the parent company Board- I had nothing to do with the decision. I was merely an investor in a company that was closed.”

In follow up conversation with Mr. Sinex, he reiterated that his brief stint as interim CEO of the company was in a caretaker role after the previous CEO had left abruptly. He indicated that his role was minor for those months (less than a year) and that the company’s board maintained all decision making power.

From the information provided to us, the bankruptcy of the OLED firm was unrelated to any of Mr. Sinex’s development projects and was an investment in a technology firm. It doesn’t appear that this bankruptcy is any reflection of Mr. Sinex’s capability as a real estate developer or of his management of complex financial arrangements dealing with real estate.

Project References

Mr. Sinex also previously provided references to the City of Burlington that could vouch for his experience as a real estate developer. ECONorthwest has reviewed two reference letters from the following individuals:

- John Schreiber - Mr. Schreiber hired and worked alongside Mr. Sinex during his tenure with JMB Realty. His letter states that, *“Although I have not been professionally engaged with Don since he left JMB, I can say with confidence that Don did a good job at JMB. He is very talented, smart, and hardworking and in my opinion, he will do an exemplary job with the BTC.”*
- Jeff Williams – Mr. Williams of Prime Finance extended the original loan to Devonwood, LLC, Mr. Sinex’s real estate investment company, for the purchase of the BTC in 2013.

His letter states that they are following the BTC redevelopment project “with great interest” and have expressed their interest in potentially providing project financing.

City of Burlington Staff also previously reached out to these individuals. It is our understanding that Mr. Schreiber followed up with a positive and satisfactory review of Mr. Sinex’s project history and development capability.

ECONorthwest called both of these contacts this week and has left a voice mail message for Mr. Williams. Mr. Scheiber’s office explained that he is away from the office on business for several days and has asked us to e-mail questions to him which we have done.

ECONorthwest, asked Mr. Sinex to provide contact information from two additional references which he has promised to provide. ECONorthwest is prepared to follow up with these additional references as soon as we receive their contact information.