Apartment Development Feasibility Analysis

1701 5th Avenue, Moline, Illinois

Prepared For:

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Development Opportunity Summary

The purpose of this report is to assess the market, financial and development capacity for an apartment development at 1701 5th Avenue in Downtown Moline, Illinois.

The report includes the analysis of one specific development scenario and financing structure to assess the overall viability of the development. We recognize that developers will likely introduce multiple variations of development programs and financing options. Nonetheless, the report provides some baseline data to inform developers of viable future redevelopment options.

Conclusions

It is DDA's opinion that the market supports a development of 113 to 150 units at the site (highlighted parcels on aerial map below). The development example shown, for this exercise, supports 71 total units, 11 of which are on the second floor of the JCPenney building and another 60 units in a newly constructed four-story apartment building on an existing surface parking lot. The development scenario will require the use of 24 surface lot parking spaces at the city-owned parking lot adjacent the site.

With estimated present-day one- and two-bedroom rents of $1,250 to $1,475, with a gross annual revenue of $1.225 million by 2024.

The overall development is estimated to cost approximately $14.5 million, including soft costs. A 30-year mortgage at a 4.4% rate, with equity investments of 25% and 30%, provides debt service ratios of 1.22 and 1.31, respectively. The DSR will remain above 1.20 up to a 5.1% interest rate under a 30-year term loan.

DDA recommends a development program with the following market parameters:

- City desires a building edge on the parking lot along 17th Street
- Minimum of one parking space per bedroom, with up to an estimated 47 covered
- Overflow parking in city lot west of subject parcel
- Common area space, including, an exercise room and lobby
- Juliet balconies, similar to Moline Enterprise Lofts
- 60% - 70% One-Bedroom Units
- 30% - 40% Two-Bedroom/Two-Bath Units

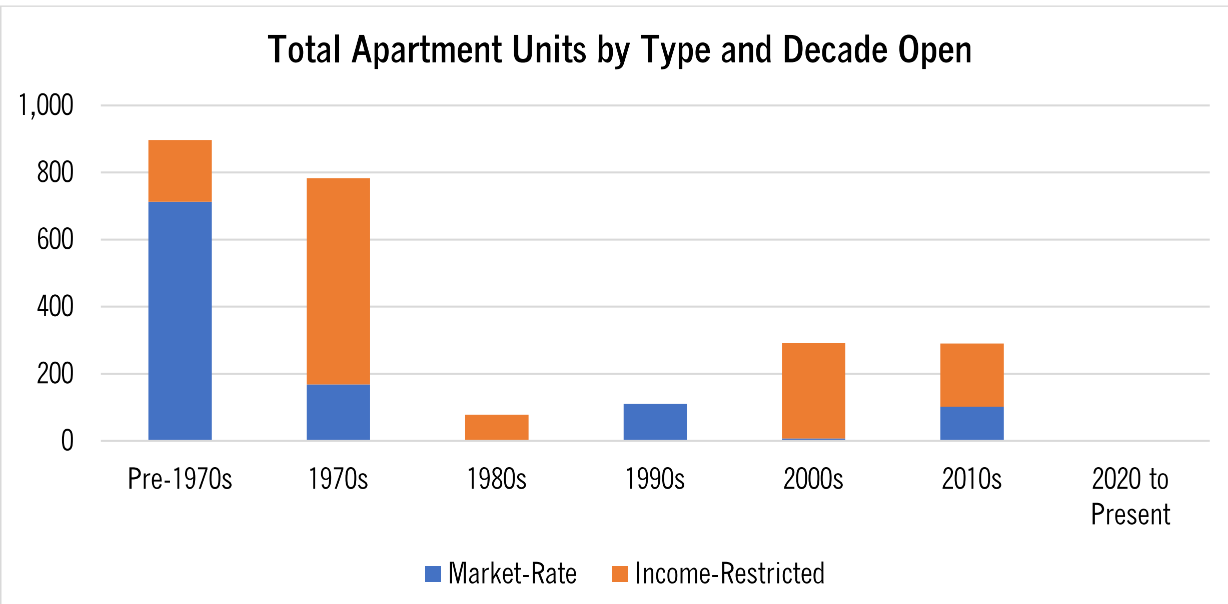
A detailed analysis of the apartment market, the subject site, development costs, financial scenarios and a development scheme for a marketed-supported multifamily rental development follows.

Rental Housing Background – Moline, Illinois

Significant pent-up demand exists for modern market-rate housing in Moline because two-thirds of market-rate apartment units were built more than five decades ago. Notably, there are more than 2,100 renter households in Moline with incomes above $50,000.

Rental Housing Supply

Old lower quality rental housing stock with inefficient floor plans, often with limited bedroom closet space; small-galley kitchens; and one bathroom for units with multiple bedrooms. Appliances and furnishings are outdated. In the past ten years, most modern rental alternatives built in Moline either are limited to low-income housing, including Moline Enterprise Lofts, Moline High School Lofts and Morning Star Housing or small-scale properties like 5 & 15th and Skinner Block Lofts.



Note: Includes apartment properties of 40 or more units (Source: DDA)

Resident Demand

Renter Incomes: In 2020, there were approximately 3,000 renter households in Moline earning more than $35,000 a year (Source: 2015-2020 American Community Survey (ACS)).

- More than 2,100 renter households with incomes above $50,000

Vacancy Rates: DDA identified fifteen downtown properties with four or more units. The 2022 vacancy rate of these properties is 6.0% (source: Renew Moline).

Employment: John Deere remains Moline's largest employer at approximately 6,400 employees, with the adjacent Rock Island Arsenal military installation at 6,400 employees (source: Quad Cities Chamber).

- Year-end 2021 unemployment rate (5.5%), slightly above pre-COVID 2019 (4.6%). Approximately 992 less workers in the labor pool in 2021.

Employee Commute Patterns: 15,000 persons commute into Moline for work (Census' 2019 Longitudinal Employer Household Dynamics).

- 6,000 in-commuters earn more than $40,000/year

Apartment Market Conditions - Downtown Moline

The average apartment property in Downtown Moline is less than 20 units, offer limited, if any amenities, without on-site management and often are not professionally managed or marketed.

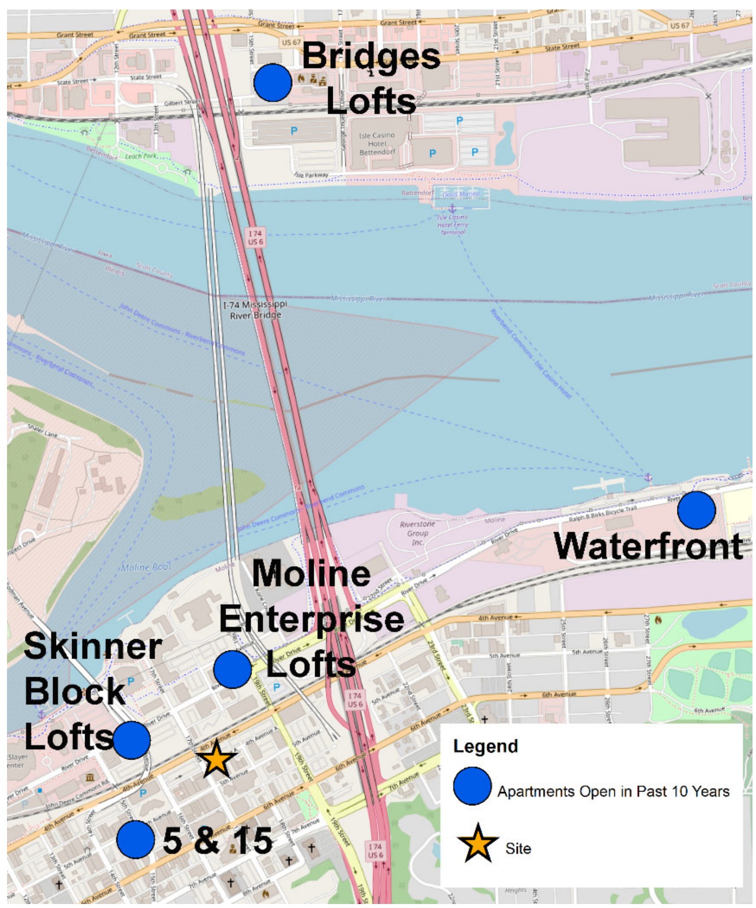
Modern Alternatives

To assess the demand and rent potential for modern units in Downtown Moline, DDA identified several properties in and near Downtown Moline that opened in the past ten years. A summary of five properties and a locations map follows.

Property	Year Built/ Open	Total Units	One-Bedroom Unit Size (Square Ft)	One-Bedroom Collected Rent	Two-Bedroom/Two Bath Unit Size (Square Ft)	Two-Bedroom/Two Bath Collected Rent
5 & 15 Apartments	1921/2016	31	441 - 614	\$1,100 - \$1,355	900	\$2,000 - \$2,900
Waterfront	2016/2022	91	600 est.	\$1,000	990	\$1,250 - \$1,300
Skinner Block Lofts	1900/2014	12	962 - 1,053	\$1,150+	1,200 - 1,335	\$1,200 - \$1,350
Moline Enterprise Lofts (mixed income)	2012	69 (7 MR)	550 – 723	\$1,000 - \$1,107	893 - 1,007	\$1,050 - \$1,350 (1BA)
The Bend (E. Moline)	2020	72	565	\$1,090	780	\$1,290 (1BA)
Bridges Lofts (Bettendorf)	2018	132	665 – 827	\$1,110 - \$1,260	1,105 - 1.810	\$1,550 - \$1,835

MR - Market Rate; BA - Bath

The average one- and two-bedroom units among the most modern projects are small at approximately 600 and 990 square feet, respectively. Notably, the smaller two-bedroom units at Moline Enterprise Lofts and The Bend include only one bathroom.



The high collected rents at 5 & 15 Apartments include utilities.

Two of the six newly opened properties are outside Moline city limits, Bridges Lofts (Bettendorf) and The Bend (East Moline).

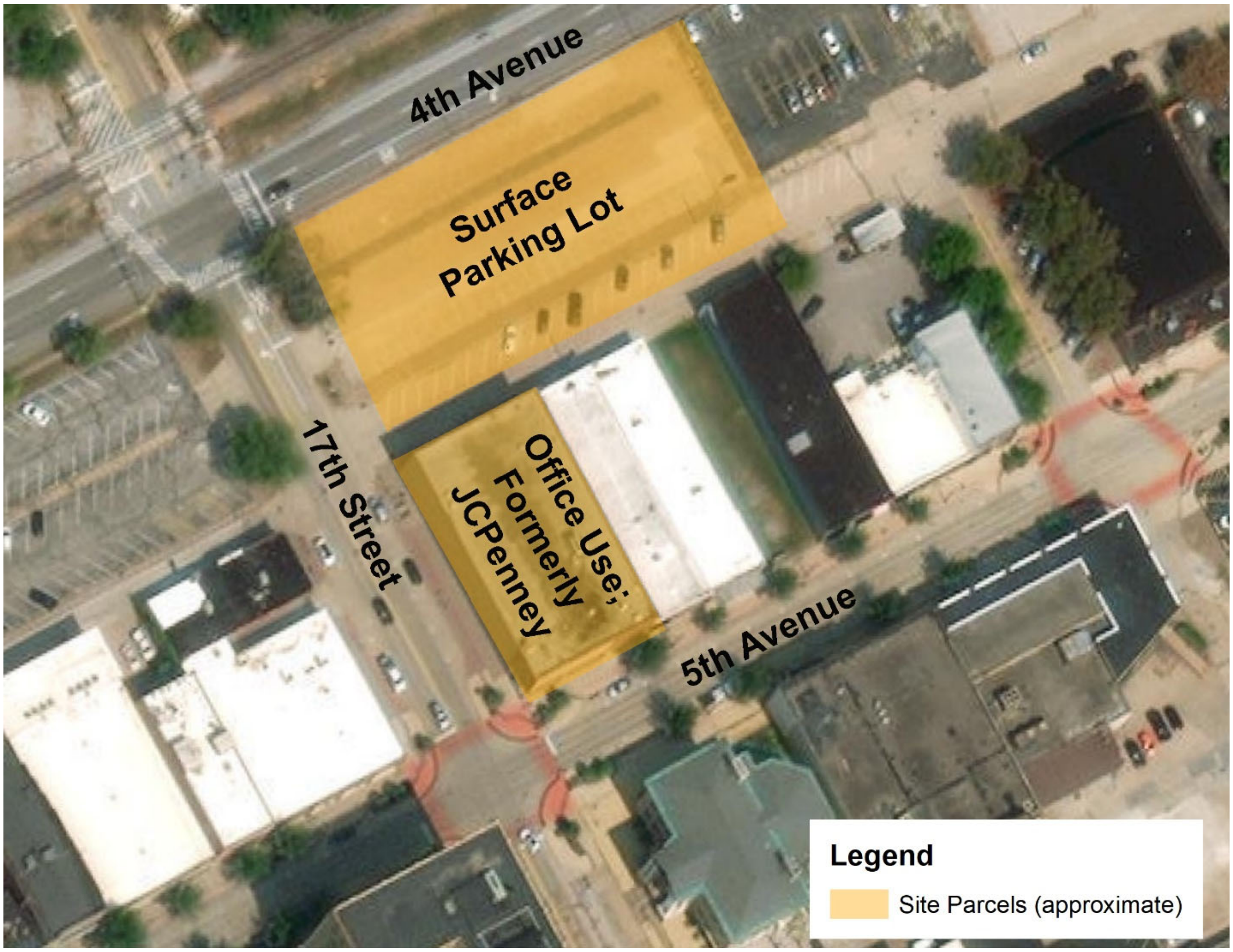
The Bridges Lofts is located across the river in Downtown Bettendorf and is 100.0% occupied.

The Bend is along the riverfront in East Moline (not shown on map). The property was a modular design.

Waterfront, formerly known as The Mills at Riverbend Commons, was initially intended to accommodate students, but was recently converted to general occupancy.

Subject Site: 1701 5th Avenue, Moline, IL

The subject site is an existing two-story building, with finished basement, and a surface parking lot located at the southeast corner of 4th Avenue and 17th Street. The basement, ground floor and second floor were previously used for office space.



JCPenney Building (left); The Axis Hotel (middle); and The Black Box Theater, Edwards Jones, Prudential (right)

The site is in a walkable area of the downtown, across from the new Axis Hotel and several ground floor commercial tenants. More than 20 food and beverage establishments are within three blocks of the site. An active rail line is north of 4th Avenue and the City of Moline is currently working to obtain a Quiet Zone designation to lessen the noise impact to the surrounding areas.

Target Market - Downtown Moline

With approximately 3,750 one- and two-person renter households with incomes above $40,000, there is market support for development of upwards of 113 to 150 units at the site.

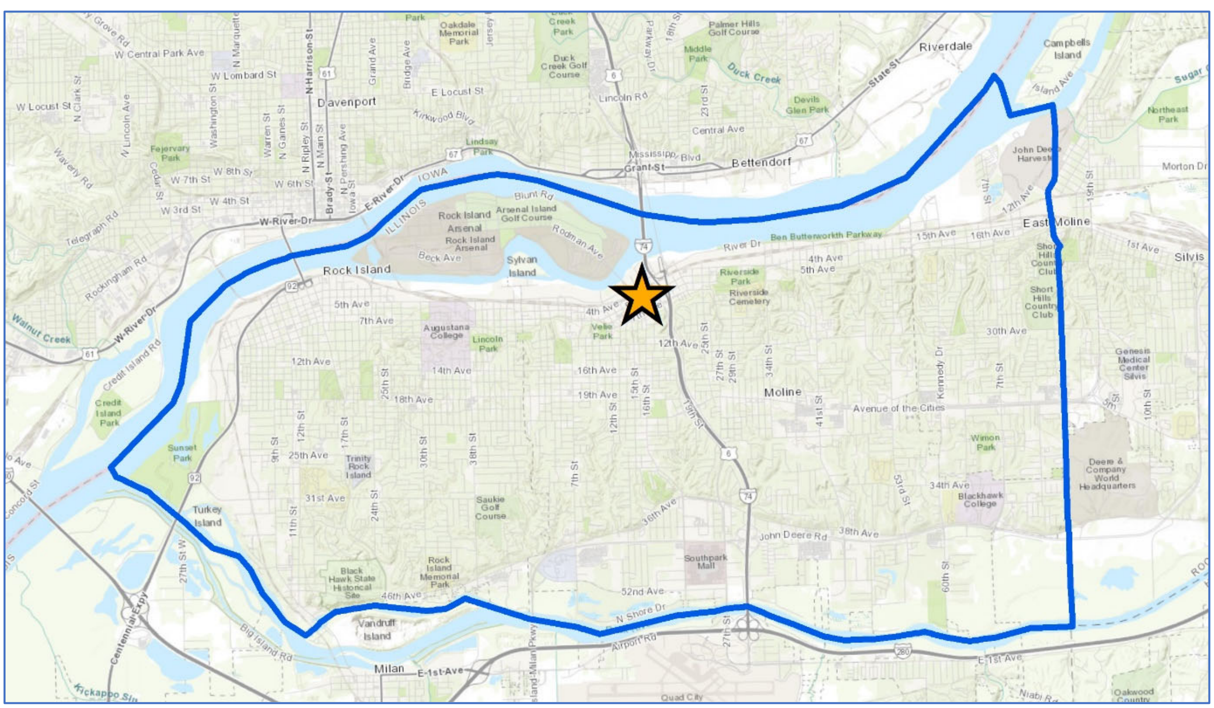
Demographics

A distribution of renter households by size and income within the Downtown Moline's Primary Market Area (see map below) follows.

Renter Households	2024 (Estimated)					
	1-Person	2-Person	3-Person	4-Person	5+Person	Total
Less Than $15,000	2,823	827	357	253	123	4,383
$15,000 - $24,999	1,273	469	229	117	87	2,175
$25,000 - $34,999	767	470	242	136	137	1,752
$35,000 - $39,999	260	238	127	85	74	783
$40,000 - $49,999	520	475	253	170	147	1,566
$50,000 - $74,999	601	810	413	205	408	2,437
$75,000 - $99,999	243	368	390	47	282	1,330
$100,000 - $149,999	278	339	53	176	135	981
$150,000 & Higher	29	96	128	19	24	296
Total	6,794	4,091	2,192	1,208	1,418	15,703

Environment	Target Household Size	Target HHs	Capture Rate	Potential
Downtown/Mixed-Use	One- and Two-Person	3,759	3% - 4%	113 - 150

Primary Market Area – Moline, Rock Island Arsenal and portions of Rock Island and East Moline



Subject Site: Development Program & Rent Schedule

Development Program and Revenue Projections

DDA recommends a development program with the following market parameters:

- City desires a building edge on the parking lot along 17th Street
- Minimum of one parking space per bedroom, with up to an estimated 47 covered
- Overflow parking in city lot west of subject parcel
- Include common area space, including, but not limited to an exercise room and lobby
- Juliet balconies, similar to Moline Enterprise Lofts
- 60% - 70% One-Bedroom Units
- 30% - 40% Two-Bedroom/Two-Bath Units

The redevelopment scenario identified for the subject site totals 71 units (See Exhibit A), not including a potential third-floor addition to the JCPenney building. Note: This represents one of many potential redevelopment scenarios but is shown as a base example to identify the core financial and market feasibility of rental housing at the site.

Present-Day Market Rent

The recommended monthly rent schedule will be among the top rents charged in the downtown area. The one- and two-bedroom units will average 675 and 955 square feet of living space, respectively. The unit sizes will be competitive in the marketplace.

	One-Bedroom			Two-Bedroom/Two-Bath		
Development Scope	**Total Units**	**Unit Size**	**Monthly Rent**	**Total Units**	**Unit Size**	**Monthly Rent**
JCPenney	7	700	$1,250	4	875	$1,350
New Construction on Lot	42	670	$1,250	18	970	$1,500
Total	*49*	*675*	*$1,250*	*22*	*955*	*$1,475*

Annual Revenue (2024 Estimated)

The annual rent potential at 94% occupancy (same as overall market) is estimated at $1,151,600. The revenue includes $80 per month charges for covered parking, a similar charge to the city's Rover Parking permit which allows convenient parking in excess of posted parking hour limits.

Development Scope	Gross Annual Revenue Potential (2024)	Annual Rent Potential @ 94%
JCPenney	$178,300	$167,600
New Construction on Lot	$1,001,700	$941,600
Covered Parking – 47 spaces	$45,120	$42,400
Total	*$1,225,120*	*$1,151,600*

Note: Revenue projections assume a 5% rent increase over a two-year period.

Notably, the revenue projections are limited to apartment revenue. The proposed JCPenney redevelopment will include 8,480 square feet of ground floor commercial space. Leasing 90% of the space at a conservative rate of $10 per square foot, triple net, will yield an additional $75,000 of annual revenue.

Subject Site: Financial Analysis

Construction Cost Estimates

The estimated construction costs assume $200 per square foot for new construction (including soft costs); $140 per square foot for renovation of JCPenney building (leaving ground-floor commercial "as is"). New construction assumes wood frame exterior construction.

Development Scope	Total Square Feet	Per Square Foot	Total Estimated Cost*
JCPenney	1,600 Ground Floor Lobby; 11,688 2nd Floor	$140	$1,860,000
New Construction on Lot	15,400 High-Bay Covered Parking; 2,500 Amenity/Lobby; 53,700 Apts (Flrs 2-4)	$90 (covered parking) $200	$12,630,000
Overall Total	*96,576*	*$178*	*$14,490,000*

Disclaimer: DDA estimated construction costs based on secondary data sources and discussions with developers and lenders in the area. Permit and inspection fees were not included in this analysis. We make no assurances that cost estimates are accurate.
Sources: RSMeans; Marshall & Swift Evaluation; Gossman Group and DDA
*Includes soft costs and totals rounded to nearest $10,000

The ground floor of the new construction on the parking lot includes a 16-foot high-bay capable of later supporting other commercial uses, such as restaurant/retail space.

The broker of the JCPenney building indicated that the building was built to support another floor. Without an understanding of the load structure of the building and the likely mechanical, electrical and plumbing (MEP) expansion required, construction cost estimates for a third floor were not estimated or included in the initial development plan.

Operating Expenses

According to the National Apartment Association 2021 survey, operating expenses for mid-rise apartment properties are typically 40.1% of the gross rent potential (GRP) with taxes typically representing 16%. The estimated Equalized Assessed Value (EAV) of the development is $3.62 million yielding an estimated annual property tax of $375,000 (10.480 tax rate), not including reductions for depreciation. However, the existing TIF #13 provides a developer the opportunity to rebate the property taxes on the improvements through 2036, assuming no extensions to the TIF. Of the estimated $375,842 annual property taxes, $322,416 can be rebated and the developer will effectively be only $53,426 (current taxes) out-of-pocket. A summary of the estimated annual operating expenses for the recommended development follows.

Expense Category	Percent of Gross Rent Potential (GRP)	Annual Operating Expenses
Property Taxes	30.7%	$375,842 (*$322,416 rebated*)
Insurance	1.7%	$21,019
Salaries and Personnel	8.4%	$103,858
Repair and Maintenance	3.1%	$38,328
Contract Services	2.6%	$32,146
Marketing	1.7%	$21,019
Administrative	1.7%	$21,019
Management Fees	2.9%	$35,856
Utilities	1.8%	$22,255
Total	*54.6%*	*$668,646 ($346,230 net rebate)*

Source: National Apartment Association 2021 Survey of Operating Income & Expenses in Rental Apartment Communities

Subject Site: Financial Analysis

DDA financially tested the development program under two equity scenarios (25% and 30%) with 25- and 30-year loans with an annual interest rate of 4.4%. Based on the projected revenue for the project, the annual debt service for the loan needs to be below approximately $671,142 to yield a Debt Service Ratio (DSR) of 1.20 or higher. The DSR is Net Operating Income as a share of the annual Debt Service. This minimum DSR is required by most lenders and investors to finance the project. As the table below shows, the 25-year loan under the 25% and 30% equity scenarios have DSRs below 1.20, therefore, is not a likely scenario to develop the project. A 30-year loan scenario with a 4.4% interest rate meets the threshold DSR ratio.

	25% Equity Scenario		30% Equity Scenario	
Financial Factors	**25-Year Loan**	**30-Year Loan**	**25-Year Loan**	**30-Year Loan**
Total Project Cost	$14,490,000	$14,490,000	$14,490,000	$14,490,000
Equity	$3,622,500	$3,622,500	$4,347,000	$4,347,000
Loan Amount	$10,867,500	$10,867,500	$10,143,0000	$10,143,000
Annual Debt Service	$725,369	$659,345	$677,011	$615,388
Annual Rental Revenue	$1,151,600	$1,151,600	$1,151,600	$1,151,600
Operating Expenses (net TIF rebate)	$346,230	$346,230	$346,230	$346,230
Net Operating Income (NOI)	$805,370	$805,370	$805,370	$805,370
Debt Service Ratio (NOI/DS)	1.11	1.22	1.19	1.31

Sources: SENB Bank and IHMV Credit Union

Note: Loan terms assume a 4.4% interest rate

The above scenarios provide limited opportunity for a developer to contribute to the site acquisition cost.

Additional Development Opportunities

There are additional development opportunities not considered in the analysis.

1. Ground-Floor Commercial space in JCPenney Building
2. Basement space in JCPenney Building, formerly office space
3. Addition of third floor of the JCPenney Building
4. Larger apartment building footprint and building expansion on parking lot west of site.
5. Potential for ground floor tenant in the new construction building

An attractive mixed-use environment can yield higher rent premiums and increase overall revenue. The addition of popular food and beverage establishments or complementary retailers on the ground floor of the JCPenney building and the new construction building along 17th Street may increase rent levels further.

The analysis generally shows a conservative core apartment project is market supported and financially feasible. Nonetheless, we recognize that there are a myriad of development concepts and funding mechanisms that may also be feasible.

1701 5TH AVENUE, MOLINE, ILLINOIS
FEASIBILITY STUDY

2022 April 28

RENEW MOLINE

Gossman group design & planning

CITY OF MOLINE ILLINOIS

DDA

1701 5TH AVENUE
MOLINE, ILLINOIS

EXISTING CONDITIONS

2022 April 28

LEGEND

- Streets
- JCPenney Building
- Building Footprints
- Parcels
- Mississippi River

0 500 1000 feet

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1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

EXISTING CONDITIONS

LEGEND

JCPenney Building

0 500 1000 feet

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1701 5TH AVENUE
MOLINE, ILLINOIS

EXISTING CONDITIONS

2022 April 28

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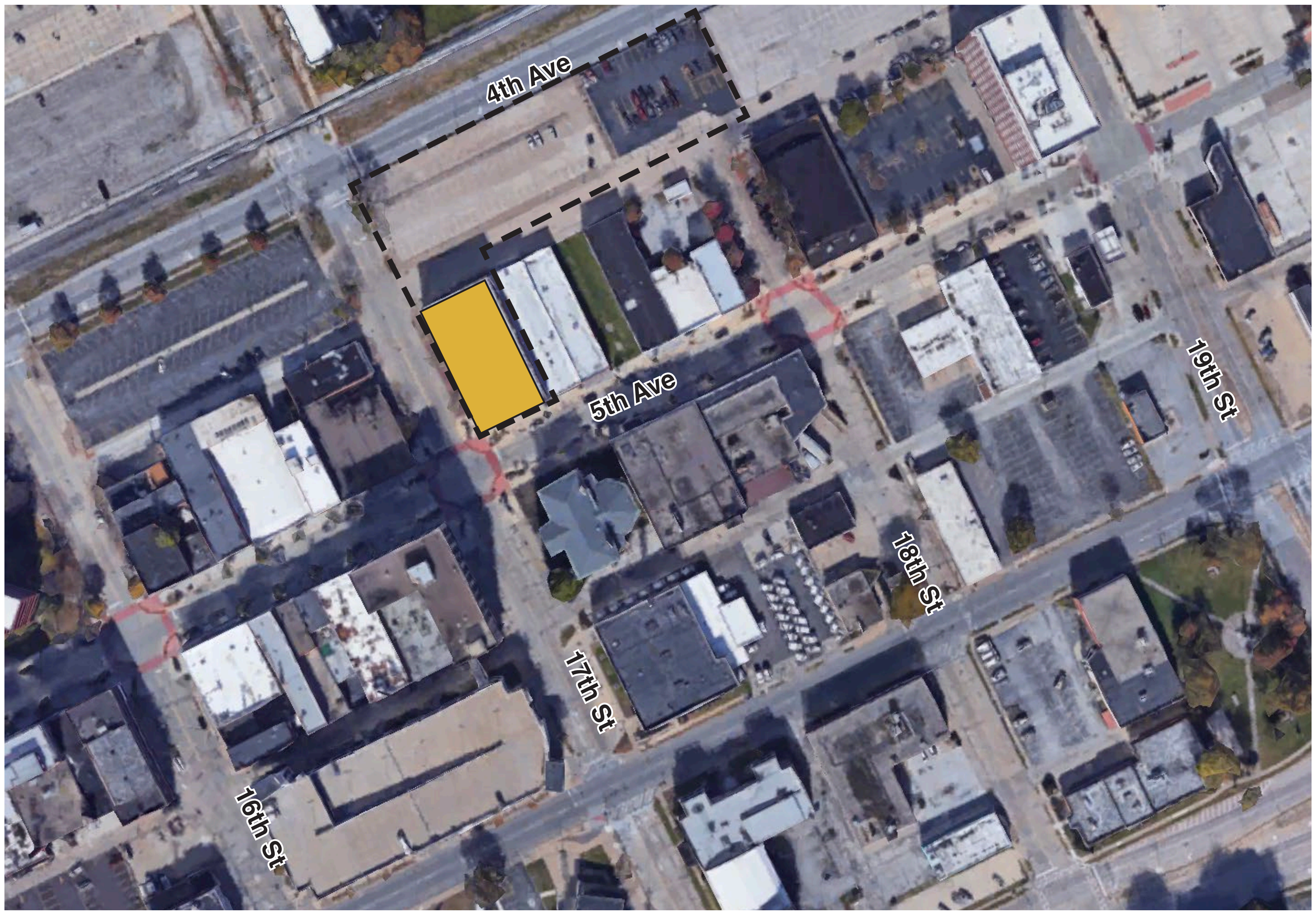
1701 5TH AVENUE
MOLINE, ILLINOIS

EXISTING CONDITIONS

2022 April 28



LEGEND

JCPenney Building

-

Existing Parking
Left lot:67 spots
Middle lot (black top): 36 spots
John Deere lot:87 spots
Along the street:36
Total = 226

0 300 600 feet

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1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

CONCEPTUAL DEVELOPMENT PLAN - SCHEME A

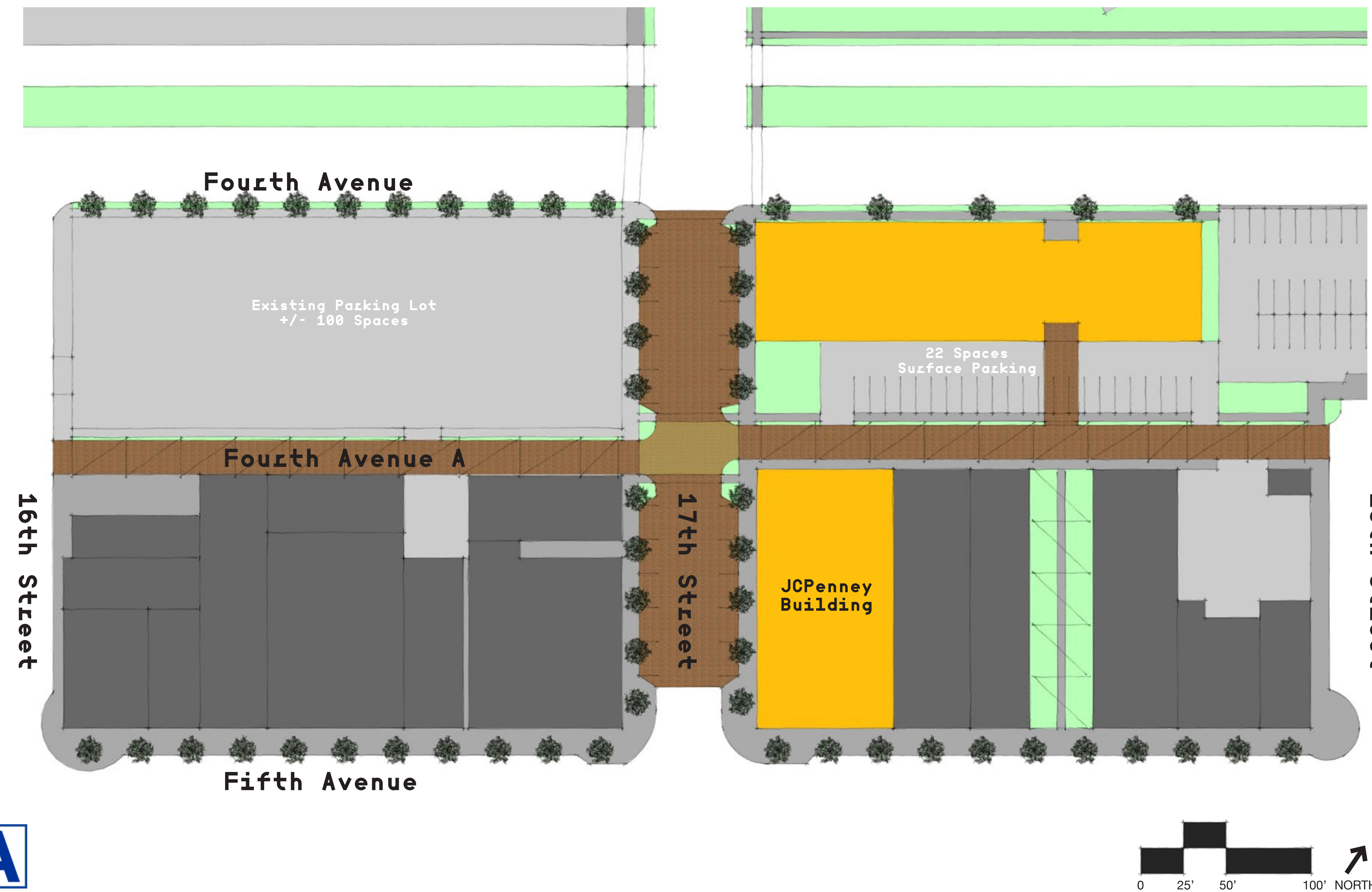
Development Data

-

Residential
-Average 760sf Units

4th St Building
-1st-2,500sf-Lobby
-1st-Covered Parking
-2nd-17,900sf-20 Units
-3rd-17,900sf-20 Units
-4th-17,900sf-20 Units
-60 Total Units
--
JCPenney = 11 Units
Total = 71 Units
47+22 = 69 On-site Spaces
93 Parking Spaces Needed

Commercial
JCPenney
-Tenant 1
-4,030sf First Floor
-Tenant 2
-4,450sf First Floor
Total = 8,480sf



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1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

CONCEPTUAL DEVELOPMENT PLAN - SCHEME A

3D View

Development Data

-

Residential
-Average 760sf Units

4th St Building
-1st-2,500sf-Lobby
-1st-Covered Parking
-2nd-17,900sf-20 Units
-3rd-17,900sf-20 Units
-4th-17,900sf-20 Units
-60 Total Units
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JCPenney = 11 Units
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Commercial
JCPenney
-Tenant 1
-4,030sf First Floor
-Tenant 2
-4,450sf First Floor
Total = 8,480sf

*Optional 3rd floor addition to JCPenney Building could add 10 more apartments.

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1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

CONCEPTUAL DEVELOPMENT PLAN - SCHEME A

3D View

Development Data

-

Residential

-Average 760sf Units

4th St Building

- -1st-2,500sf-Lobby
- -1st-Covered Parking
- -2nd-17,900sf-20 Units
- -3rd-17,900sf-20 Units
- -4th-17,900sf-20 Units

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JCPenney = 11 Units

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47+22 = 69 On-site Spaces

93 Parking Spaces Needed

Commercial

JCPenney

-Tenant 1

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-4,450sf First Floor

Total = 8,480sf

Gossman group design & planning

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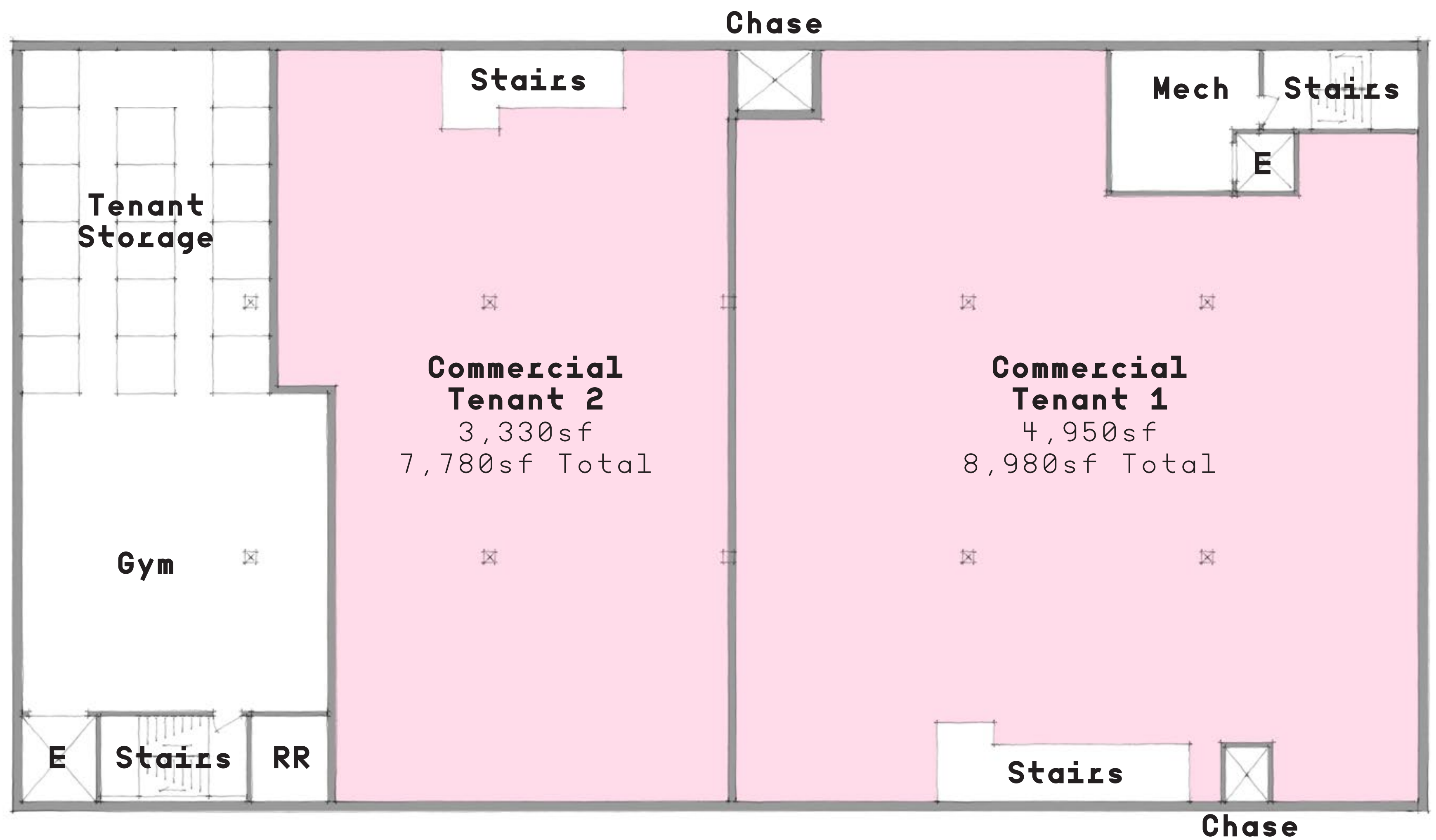
1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

RENOVATING THE EXISTING JCPENNEY'S BUILDING
CONCEPTUAL FLOOR PLAN - SCHEME A

Development Data
-
Commercial
-Tenant 1
 -4,030sf First Floor
 -4,950sf Basement
 -8,980sf Total
-Tenant 2
 -4,450sf First Floor
 -3,330sf Basement
 -7,780sf Total
Total = 16,760sf

Apartments
- 11 Units Second Floor
Total = 11 Units



BASEMENT

0 5' 10' 20' NORTH

RENOVATING THE EXISTING JCPENNEY'S BUILDING
CONCEPTUAL FLOOR PLAN - SCHEME A

Development Data
-
Commercial
- Tenant 1
  - 4,030sf First Floor
  - 4,950sf Basement
  - 8,980sf Total
- Tenant 2
  - 4,450sf First Floor
  - 3,330sf Basement
  - 7,780sf Total

Total = 16,760sf

Apartments
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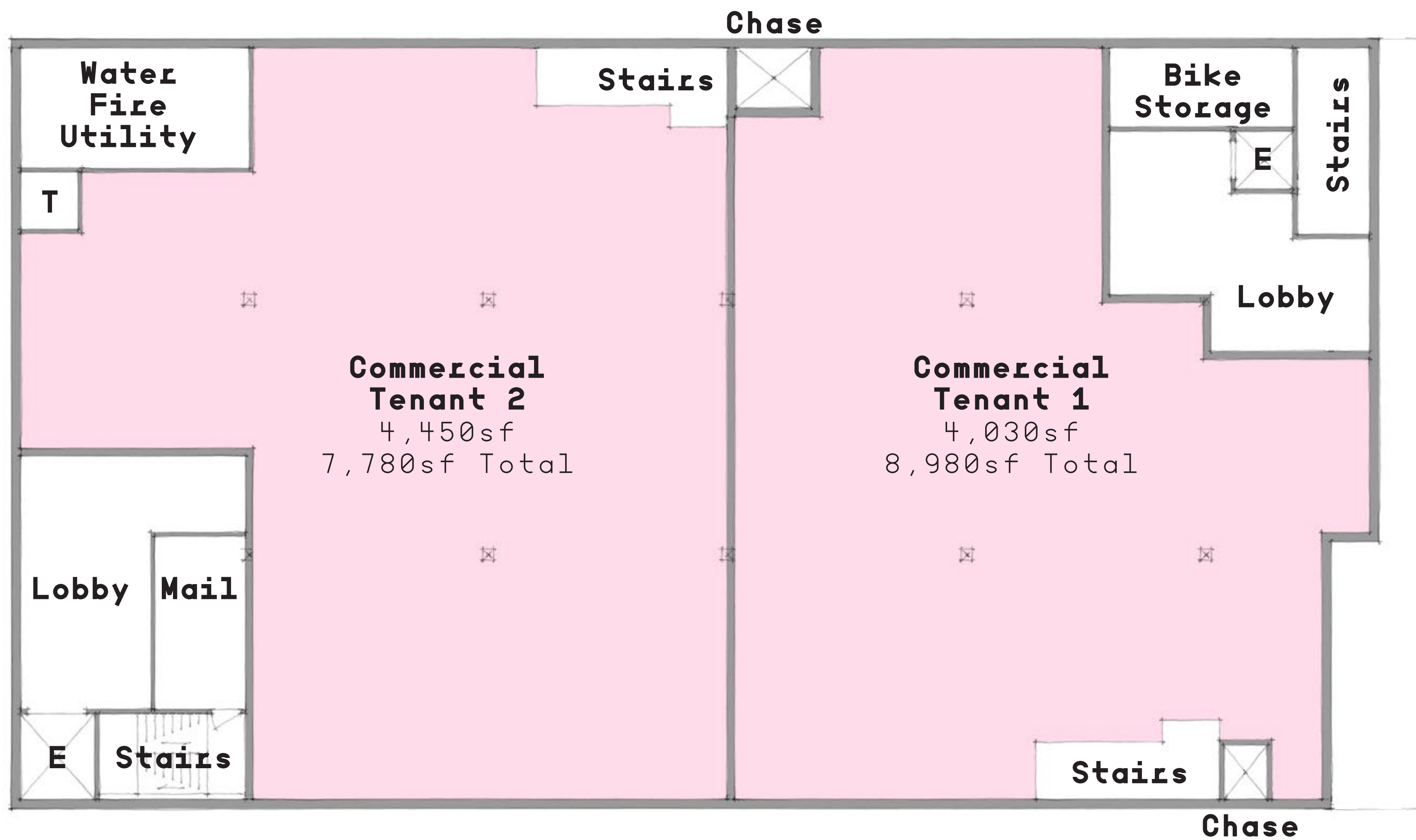
Total = 11 Units



FIRST FLOOR

1701 5TH AVENUE
MOLINE, ILLINOIS

2022 April 28

RENOVATING THE EXISTING JCPENNEY'S BUILDING
CONCEPTUAL FLOOR PLAN - SCHEME A

Development Data

-

Commercial
- Tenant 1
  - 4,030sf First Floor
  - 4,950sf Basement
  - 8,980sf Total
- Tenant 2
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  - 3,330sf Basement
  - 7,780sf Total

Total = 16,760sf

Apartments
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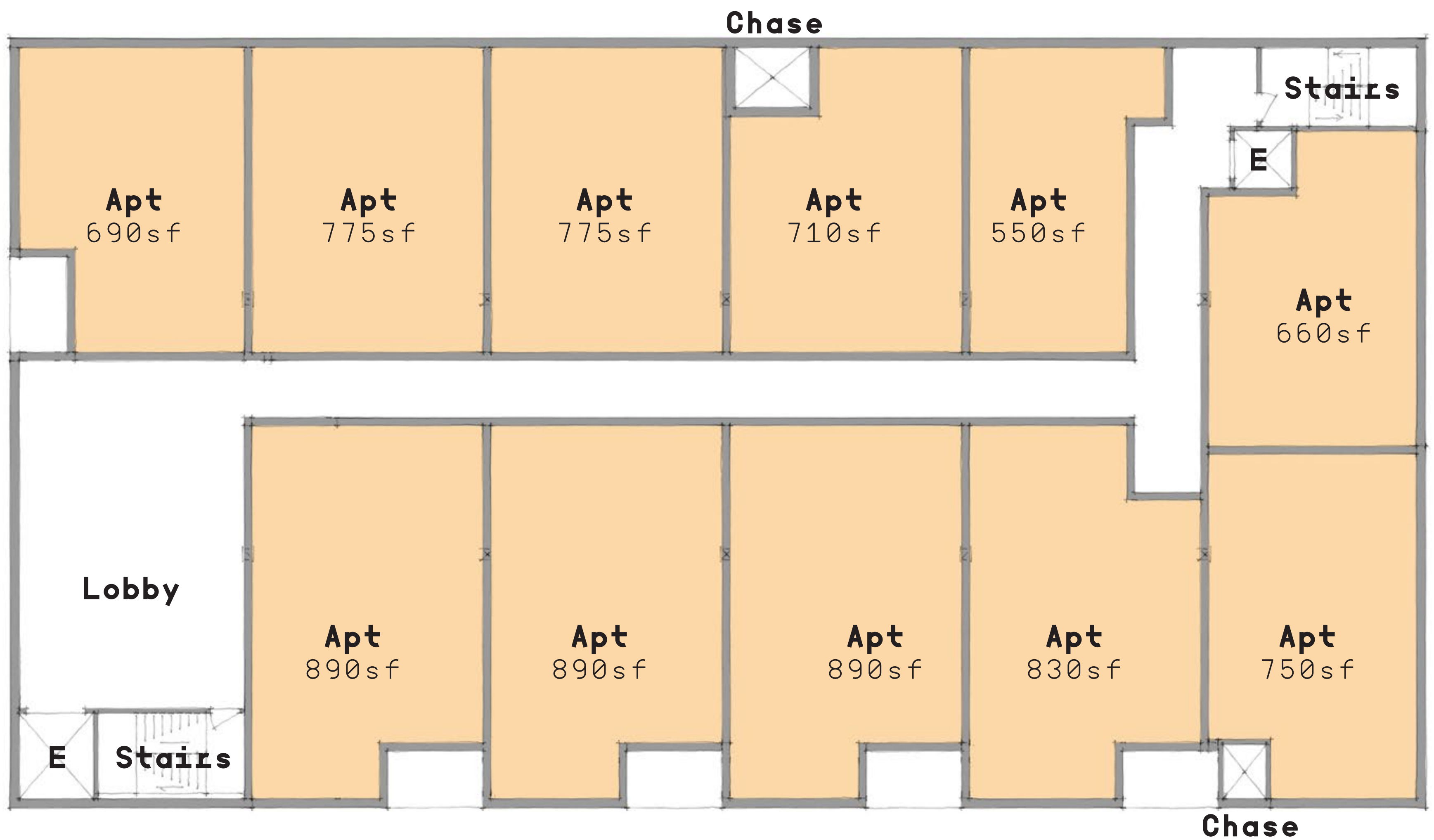
Total = 11 Units



SECOND FLOOR