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October 24, 2016

Ms. Christina Volek, City Administrator
City of Billings
210 North 27th Street, PO Box 1178
Billings, Montana 59101

Re: **MontDevCo Development Review**

Dear Ms. Volek:

Introduction

The City of Billings is being asked to enter into a Memorandum of Understanding with MontDevCo, LLC (the "Developer") for it to be named as the developer of a major Downtown redevelopment project through June 30, 2017. If so named, the City and MontDevCo, LLC will continue to investigate the feasibility of the Project, and if appropriate, take preliminary steps for it to move forward. One would assume that at or prior to June 30, 2017, the City and the Developer would either agree on moving forward to take steps to finalize a development agreement, decide to continue the investigation phase or abandon the Project as proposed.

The City of Billings has been approached by the development entity, MontDevCo LLC a Montana Limited Liability Corporation for the development of an approximate \$165 million mixed-use development called One Big Sky Center (OBSC) (the "Project") in the City's downtown area. MontDevCo, LLC was created specifically for this proposed Project. There are three principals of MontDevCo, LLC: Skip Ahern, Greg Tatham, and M. Burke McHugh. All three principals bring a different background of experience for this Project and will be described in more detail. The Project is the sum of two objectives: the Developer's Initial proposal for a Downtown hotel, with associated parking; and a Downtown Billings Alliance objective for a Downtown conference center. Together the Project now includes these two objectives plus retail, office, apartments and the required expanded parking. Therefore the Project is generally defined herein as a large mixed-use downtown redevelopment project, including a conference center, located in a major regional center.

The City asked Springsted to perform a due diligence review on the company and Project. This review has the following purposes:

- To provide greater detail on the Project itself both from physical development and financial perspectives.
- To provide background on the Developer itself, primarily the three principals, regarding the ability to deliver the Project as represented. Keys to this item include track record in developing similar projects and obtaining access to private funding components.

- To highlight any areas of interest or concern relating to the City proceeding with the Project. Areas of interest or concern should not necessarily be interpreted as negative conditions but rather potential topics to further explore, which may be addressed in a future development agreement.

A due diligence review is based to a large extent on the availability of information as provided by the Developer. In addition to Developer information, we access other industry sources, to the extent available. Often these information sources lead to additional questions and requests for more information. It should be noted that the development team has been forthcoming in providing the requested information and responsive to participating in phone interviews and answering questions.

At the outset two items should be noted:

The Project is still in its early stages with a good number of specific items yet to be determined. A substantial, multi-phased redevelopment project covers a number of years, over which a number of situations, including development component market factors, can change. Therefore this review is based on what has currently been represented. The City should reasonably expect that changes may occur. If and when a development agreement is negotiated then the City should create flexibility for itself in addressing any future development changes.

Second, a condition of having access to some of the Developer-provided information was our signing a 'non-disclosure agreement' so that any proprietary information would not be disclosed by us. Therefore a number of our responses must be in more general terms and not citing specific Developer information.

We focused on the following areas of information to assist the City with analyzing the ability of the Developer to construct the Project as has been represented:

- Project Details: character and magnitude of each development component type
- Developer Profile: description of development entity and three principals
- Project Financing: sources and uses of funding, including public financing
- References and Relevant Experience

We also want to describe what this review does not cover. Springsted has the professional experience to provide perspectives on the topics listed above but does not have such credentials for some other aspects of economic development projects. We are not commenting on the market for such a Project as presented nor whether this Project will be successful as a private market venture once constructed and stabilized. We also cannot comment on the likelihood of the Project being sold or remaining with the Developer in future years; however, additional discussions with the development team may provide a broader understanding of such an event. A market study was commissioned for a conference center only in the City in March 2015. Springsted has not analyzed the viability of the Project based on the market study. Our analysis and summary results are based on the information made available to us at the time of the analysis and may be subject to change as the market adjusts or other development occurs.

Finally, this study does not comment on the level of public financial assistance, tax increment financing, potentially required for the Project.

Project Details Section:

The purpose of the Project Details section is to establish a common understanding of what is being proposed.

MontDevCo, LLC is proposing the construction of an approximate \$165 million mixed-use facility in the City of Billings. It is our understanding following conversations with the development team that the scope of the Project has changed over time. It initially started with the purchase of one property in downtown Billings by Mr. McHugh through BML Holdings, LLC for the construction of a hotel. Through discussions with the Downtown Billings Alliance, the Project began to change in scope. Market studies commissioned in 2015 provided information indicating that there may be a need for a convention center in the City. The Project grew to include the initially-proposed hotel, plus retail, office, conference center, apartment units and parking. Mr. Ahern, Jr. was asked to join the team of Mr. McHugh and Mr. Tatham to explore an undertaking of a project of this magnitude.

MontDevCo, LLC was created for the development of this large mixed-use project and since the increased scope includes non-revenue generating uses (conference center and public parking), conversations regarding the need for public financial participation were initiated. The \$165 million Project as proposed with public participation comprises of the following development components:

- 100,000 square feet office
- 36,500 square feet retail
- 80 apartment units
- 150 room hotel
- 650 parking stalls
- Conference center

Absent public participation as a funding source, the development team has indicated it would pursue a smaller scale project, subject to market that would include only portions of the overall Project including office, apartments, reduced parking and retail and potentially a hotel.

As stated previously, a project of this scope and magnitude may take years to complete from implantation to construction to operational, starting with land assembly and site control. In the submitted information, the Developer has provided information regarding development timing:

- Pre-development phase
 - Current thru Sept to Dec 2017 (estimated 12 to 15 months)
 - Land assembly and site control
 - Secure financing from multiple funding sources

- Construction Phase
 - Oct 2017 to Oct 2019 (estimated 22 to 28 months) anticipate start of demolition and site work prior to completion of 95% CD's and full building permits issued
 - Certificate of substantial completion issued approximately Oct 2019
- Lease up phase
 - Oct 2017 for all major tenants.
 - Signed leases for all anchor tenants including office tenants over 15,000 sq. ft., main anchor retail tenant, hotel partner secured prior to the start of construction and TIF funding by the City.
 - Currently, 2 signed LOIs for 50,000 sq. ft. of office space and negotiating another office LOI for an additional 40,000 sq. ft.
 - Negotiating an LOI for approximately 24,000 sq. ft. of retail space which will include a brew pub/restaurant, 5 screen movie theater, and 10 lane bowling alley.
- Stabilized income achieved
 - Approximately 4-9 months after substantial completion.

A market study was completed by HVS in March of 2015 with several key conclusions. It stated that Billings has enjoyed a strong presence in the state association market and current meeting venues are older and outdated, failing to provide meeting spaces with modern amenities and services that attendees expect. There are other key takeaways but as we indicated previously, it is not our role to comment on the marketability of the Project, mainly to point out that a market study was completed regarding convention center needs in Billings.

A component necessary for Project commencement includes land assembly and site control. To-date the Developer has gained site control of all seven properties that would be home to One Big Sky Center. Status of those seven properties is as follows:

- 1 property is owned and controlled by BML Holdings LLC
- 1 property is currently under control with option to purchase
- 4 properties are currently under control and in escrow
- 1 property currently under control with partner in Project (Swank Properties LLC)

MontDevCo, LLC has plans to own, operate, manage, construct, lease and finance the Project through the various development phases and upon completion. The Developer anticipates being a partner with the City of Billings to manage any and all City owned facilities (conference center and parking garage), and Downtown Billings Alliance would manage and operate all public facilities in the 29th Street pedestrian right of way.

Project Financing Section:

The purposes of the Project Financing section are to provide a common understanding of the financing plan and to present background on the Developer's ability to obtain private financing.

A \$165 million Project will have multiple funding sources, including public participation for the non-revenue producing development types.

Appendix A is a summary of the sources and uses of funds for this Project. It should be noted that as of this date the Developer has represented its expenditure of approximately \$1.0 million primarily for site acquisition.

MontDevCo is in active discussions with one of the largest banks in the US for the construction loan piece. They have indicated the bank is interested and has lending capacity to fund this amount. In addition, they have expressed interest in buying the TIF bonds. The Developer is also pursuing other avenues of bank funding. At the time of this analysis, the Developer has indicated it is not in the position of approaching a financial institution for this Project until it knows if the City will be in a position to financially participate.

The Developer has had discussions with the Montana Regional Office for EB5 funding and were told they could potentially qualify for the \$30-\$32 million investment based on estimated job creation. They are continuing efforts to secure this mezzanine financing and will continue to do so over the course of the next year as a component of the pre-development phase. In conversations with the Developer, should this EB5 program funding not be available or not to the extent anticipated, then it would be replaced by a combination of increased equity participation and/or reduced project costs. Either of these alternatives could impact the nature of the Project or other funding sources as now represented.

MontDevCo is in active discussions with numerous groups to secure private equity. They have indicated a desire to understand that the City will invest in the Project as well showing a significant amount of local community support. They have indicated that without City funds these investor groups will not come to the table. Mr. Ahern, Jr. has stated he has working experience with attracting equity from other projects (most recently the Eviva Cherokee) and will pursue similar investors for this Project.

Findings:

Given the point in the development process, the Project financing has not yet been obtained. One or more of the Developers have established relationships with major financial institutions and represent other relationship with potential equity concerns.

The inclusion of a conference center and an overall expanded Project leads to the Developer's request for public financial participation.

Developer Profile:

The purpose of the Developer Profile is to establish the history and expertise in successfully developing a Project similar to that proposed for Downtown Billings.

MontDevCo, LLC is a Montana Limited Liability Corporation formed as a single purpose LLC for development of the Project. MontDevCo, LLC is comprised of three principals: M. Burke McHugh, Gregory C. Tatham, and George I. "Skip" Ahern, Jr.

M. Burke McHugh established Malbur Properties, LLC in 1995 and BML Holdings, LLC in 2014. Mr. McHugh has experience in smaller real estate ventures. Recently Mr. McHugh, in partnership with Greg Tatham, worked on the development of a 145 acre planned RV and residential development in Roundup, Montana.

Gregory C. Tatham brings a background in commercial real estate brokerage and development expertise. Previous experience includes procurement of sales of raw land, retail, and industrial properties in Arizona. Mr. Tatham also has provided due diligence, negotiated purchase, and achieved entitlements for many projects. Recently Mr. Tatham, in partnership with Burke McHugh, worked on the development of a 145 acre planned RV and residential development in Roundup, Montana. Mr. Tatham's current project includes a large Infill revitalization mixed use commercial project.

George I. "Skip" Ahern, Jr. is president of the development entity Charter Realty Group. Mr. Ahern, Jr.'s most recent project is Eviva Cherokee, a 274-unit 18-story high-rise luxury apartment project in Denver, Colorado. His primary role is the purchase, ownership, and manager of a portfolio of previously-distressed office and industrial properties that were renovated and now achieving reasonable returns and fully leased. Mr. Ahern, Jr.'s previous experience includes several large office and mixed-use developments while working for Oxford Properties in the 1980's.

As described under each of the three individuals listed above, each principal of MontDevCo, LLC has a different skill set that they believe will contribute collectively to bring the proposed Project to fruition.

Findings:

The Developers either in aggregate or as individuals do not have a history of developing projects similar to this Project. They have experience in developing projects similar to the Project they originally proposed. Mr. Ahern, Jr. brings expertise in major projects in central cities.

References and Relevant Experience

The purpose of the References and Relevant Experience is to obtain additional perspectives on the Developer's ability to deliver the Project as represented.

Springsted requested references and relevant experience from each of the principals of MontDevCo, LLC. In the submitted information, each principal provided background information and relevant experience. As stated earlier, the development team comprises of three principals: M. Burke McHugh, Gregory Tatham, and George I. "Skip" Ahern, Jr. Based on the information we received, each principal brings a different element of expertise to the Project. M. Burke McHugh and Gregory Tatham initiated the Project through an acquisition of property on the Project site for

possible construction of a hotel. After a larger-scale project was proposed due to perceived need of a convention center and public parking (with other supporting uses), George I. "Skip" Ahern, Jr. was later brought into the Project as a third party based on his experience with similar type projects.

Springsted was able to connect with a limited number of the provided personal, financial and business references of the principals. No areas of concern were identified from those conversations. The development team was also asked to respond to the following questions:

- Has the Developer or any affiliated party defaulted on a real estate obligation?
- Has the Developer or any affiliated party been the defendant in any legal suit or action?
- Has the Developer or any affiliated party declared bankruptcy?
- Has the Developer or any affiliated party had judgements recorded against them?
- If the answer to any of the above questions is yes, please explain.

The development team responded "No" to the above questions.

Findings:

The Developer's representation and our contacting a limited number of references found no significant issues.

Conclusion:

The City at this point is being asked whether or not it wants to further investigate the Project's feasibility, and if appropriate, take additional steps forward with this Developer through June 30, 2017.

This due diligence review's purpose is to provide additional information regarding the Project, the Developer's experience in similar projects and their potential access to private and non-City financing sources.

Our conclusions from this review are:

- This is a large, complicated redevelopment project. Redevelopment projects by their nature are most often more complex and costly than raw land developments.
- The Developers first proposed a much smaller project. In discussions with the Downtown Billings Alliance the Project took on a significantly larger dimension with more components and costs.
- This Project is still at a beginning stage. Much more analysis will be needed to determine the Project's overall feasibility, that of each of its components, and the need for and levels of financing sources.
- The Developer is a single purpose company formed for the Project.
- The Developer's principals are three individuals which while having distinct experiences have not all worked together.
 - Neither singularly nor in aggregate have they worked on a downtown redevelopment project of this type, nor one of this type in a major regional center.

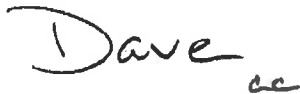
- One or more of the principals have worked on significant mixed-use developments.
- One or more of the principals have working relationships with financial institutions and private equity firms.
- The principals represent to have expended approximately \$1.0 million on the Project to date.
- In the principals' representations and in our conversations with references, albeit limited, no negative situations have been uncovered.

If the City decides to move forward and based on this review, we would have the City pay particular attention to:

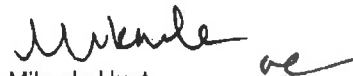
- Having the Developer demonstrate progress on major project components through procuring potential hotel operators, tenant leasing, preliminary indicators of private financing, and other evidence of their capacity to successfully complete the Project.
- Continuing to evaluate the substantial public parking investment in the context of its current Downtown parking situation.
- Defining the extent of any public financial participation as more becomes known regarding each component of the Development and the non-City financial capacities.
- Gaining a greater indication of the probability of the EB5 funding participation and at what probable levels.

Vibrant downtowns often present ongoing challenges to public jurisdictions. Downtown redevelopment frequently presents particular challenges given the associated costs and required densities to attain a long-term successful project. Each entity must determine its balance point between a vital downtown and the challenges required to maintain it.

Respectfully submitted,



David MacGillivray
Chairman



Mikaela Huot
Vice President, Development Specialist

Appendix A
One Big Sky Center
MontDevCo, LLC
Sources and Uses of Funds

Sources	Amount	Uses	Amount
Equity	17,095,600	Land Acquisition	4,042,000
Private Financing	70,643,400	Retail Construction	4,160,000
City Funds	35,000,000	Retail TI	3,050,000
EB-5 Mezz	30,000,000	Residential	22,100,000
Tenant Paid TI	12,360,000	Office Construction	14,820,000
		Office TI	5,700,000
		Hotel Construction	20,100,000
		Hotel TI	7,200,000
		Parking	20,750,000
		Conference Center	12,900,000
		Contingency	9,800,000
		29 th Street Ped Improve	1,200,000
		TI Contingency	2,110,000
		Soft Costs	37,167,000
Total	165,099,000	Total	165,099,000