



November 28, 2022

Ken Millett  
City of Winston-Salem

Re: City Partnership for Economic Development

Ken,

At Front Street Capital (FSC), we are proud of our track record of partnering with the City of Winston-Salem on numerous occasions to provide significant 'win-win' investments that directly impact our local economy. FSC understands that development-ready sites and speculative industrial space are critical components of vibrant and competitive economic development across our city. Without such available product in our local inventory, our city and county will lose on many potential projects that bring net new tax base, jobs, and overall economic diversification. Given current market activity and the intense competition for every project, we as a city cannot afford to miss out on these economic drivers due to a lack of available shovel-ready sites or modern facilities.

Through the recent help of the City of Winston-Salem in both 2018 and 2020, Front Street was able to kick-off a two new industrial parks, Union Cross Industrial Center and Park at 74. The City partnership helped us start these parks through the construction of two speculative industrial buildings of 140,000sf and 250,000sf respectively, as well as complete all horizontal infrastructure necessary for future development. Bringing these two major sites to 'shovel ready' enabled FSC to enhance economic development activity through more inquiries on build-to-suit projects as well as strong interest from a range of national tenants during and after delivery of the spec buildings. A marquee example is in the construction of the 250,000sf speculative facility at Park at 74 where it enabled us to win the Ardagh Metal Beverage development. Ardagh was very time constrained and leveraged the use of the spec space temporarily while we constructed their larger 610,000sf distribution headquarters. The availability of the spec building at Park at 74 led to winning the much larger Ardagh development, allowing Ardagh to expand their manufacturing as well as distribution, creating significant new jobs and tax base for the City.

This letter intends to serve as an outline of the previous two successful City partnerships and provide a similar request for the City to support FSC's third speculative industrial building. Below is a breakdown of how the City's economic development loan has impacted our industrial parks including the overall economic impact and annual return the City will receive as a result of these successful projects.



## **Union Cross Industrial Center - Project Overview**

Project Background – The City of W-S had already committed to the Forsyth County Development Corporation a defined investment amount for FCDC to develop a speculative industrial building on the available land at Union Cross Business Park. After learning of our intentions to develop a speculative industrial building at Union Cross Industrial Center (UCIC), FCDC/WSBI determined we were better suited for this project as developers with market-leading experience in industrial development and the capital to deliver a larger facility. FSC worked with FCDC to propose this to the City and ultimately approve the City's original investment to be allocated to a spec building at UCIC. The City's initial investment for the spec building created the incentive for FSC to deliver all horizontal infrastructure and create shovel-ready sites at UCIC. This soon led FSC to win a 200,000sf (expandable to 300k sf) build-to-suit development for Bunzl Corporation adjacent to the spec building. Most recently, FSC won the development for Ziehl-Abegg Inc where we will construct a new 522,500sf North American headquarters for both manufacturing and distribution. This facility will begin construction Q1 2023 and will add \$60 million in tax base to UCIC's growing tenant roster.

## **UCIC Economic Overview**

### **City Investment**

- \$2,470,450 – loan to FSC from City of W-S
  - To be paid back within 3 years with 2, 1-year extensions for a total of a 5-year payback projected by the City
  - FSC agreed to all terms previously negotiated between City and FCDC
  - Loan was ultimately paid back ahead of schedule

### **FSC Investment at UCIC (to date)**

- Land Cost - \$3,900,000
- Horizontal Infrastructure - \$2,489,797
  - Includes: Millennium Drive, storm water pond, utilities to sites, NCDOT turn lane
  - Projected horizontal cost remaining: \$200,000
  - Completed 2Q 2019
- Spec Building (140,000 SF)
  - Cost of Spec Building: \$7,830,000
  - Total Cost at Completion: \$8,250,000
  - City Contribution: \$2,470,450
  - Completed 3Q 2018
- Build-to-Suit for Bunzl Corporation (200,000 SF expandable to 300,000)
  - Total Project Investment: \$12,200,000
  - All equity and debt procured by FSC
  - Completed 2Q 2019



- Build-to-Suit for Ziehl-Abegg, Inc. (522,500 SF)
  - FSC is beginning Construction Q1 2023 on ZA's new North American headquarters for manufacturing and distribution
  - Total Deal Cost: \$60,000,000

**Total Investment to Date at UCIC (including Ziehl Abegg): \$84,350,000**

#### FSC City Loan Payback at UCIC

- FSC paid back the City loan early in two installments with the last installment on 9.30.19
- ***All fund from City loan paid back in full within 16 months out of an expected 5 years***

#### City's Return on Investment from UCIC Loan

The City's loan of \$2,489,797 was made with the anticipation of being paid back over the course of five years. **FSC not only repaid the loan in full in 16 months but is in the process of delivering over \$84 million in additional tax base, added jobs, and economic diversification from three new employers from outside the City/County.**

Front Street Capital's projects at UCIC are projected to create **\$640,000 in annual tax revenue** for the City of Winston-Salem at the completion of the Ziehl-Abegg development. Please see Exhibit B for an outline of total City investment and return.

#### Park at 74 – Project Overview

In 2019, FSC invested approximately \$5 million to acquired 107+/- acres of land on both sides of Wallburg Road located at the entrance to Union Cross Business Park. Since 2019 we have invested an additional \$57,000,000 to complete two facilities, a 250,000sf speculative industrial facility as well as a 610,000sf build to suit for Ardagh Metal Beverage. Our partnership with the City assisted us in delivering the 250,000sf spec that ultimately enabled us to win the Ardagh project. Ardagh leveraged the spec building to temporarily store and distribute their products while we designed and completed their 610,000sf warehouse and distribution headquarters across Wallburg Road. FSC has recently leased the 250,000sf spec building to a new tenant, USTC Corp, and will be investing an additional \$5,000,000 into the facility to accommodate the new tenant beginning Q1 2023.



## **Park at 74 Economic Overview**

### **City Investment**

- \$2,470,450 – loan to FSC from City of W-S
  - To be paid back within 3 years with 2, 1-year extensions for a total of a 5-year payback projected by the City
  - FSC agreed to all terms previously negotiated between City and FCDC
- *FSC is prepared to pay back the city in full on January 15, 2023*

### **FSC Investment at Park at 74 (to date)**

- Land Cost:
  - \$5,000,000
- Horizontal Infrastructure
  - \$2,800,000
- 250,000sf Speculative Facility
  - \$14,639,000 initial investment
  - Total Investment: \$21,250,000 after tenant improvements for USTC Corp
- Ardagh Metal Beverage
  - \$41,500,000 total investment

**Total Investment to Date at Park at 74 (Wallburg Rd): \$70,550,000**

### **City Return on Investment**

Front Street Capital's projects at UCIC are projected to create **\$491,000 in annual tax revenue** for the City of Winston-Salem at the completion of the Ziehl-Abegg development. Considering FSC's early payback of the City, the City's return on investment exceeds any standard of return calculation.

## **City of Winston-Salem Total Return from FSC Partnership**

FSC has demonstrated significant success from our recent partnerships with the City of Winston-Salem. **Our team has paid back the loan early on both occasions, the first over 16 months and the second over 19 months and has generated over \$157 million in total project value. Beginning in 2023-2024, we project the City's annual tax revenue from these FSC projects to be nearly \$1,250,000.** See Exhibit B for a summary of City investment and return from the FSC related projects at Union Cross Industrial Center and Park at 74.



## **New Speculative Development - Proposed Use of Funds**

Over the last two years, the market for industrial development has dramatically shifted with respect to construction cost increases and the cost of financing. It is still critical that we have speculative industrial product available for prospective tenants in order for Winston-Salem and Forsyth County to remain competitive for new economic development. The cost increases outlined above create major hurdles for developers to complete new facilities that have competitive lease rates. Support from the City for this new proposed speculative building will help us continue to deliver competitive industrial product that we have proven to be successful investments for both the City and Front Street Capital.

**FSC plans to immediately begin construction on a new 144,000sf speculative industrial facility located on Lot 3 at Union Cross Industrial Center.**

### **New Spec Building Details:**

- Located on UCIC Lot 4 (see Exhibit A for location)
- 144,000 Square Feet
- Commence Construction Q1 2023
- **\$15,797,000 Initial Investment**
  - **\$8,554,500 Primary Mortgage**
  - **\$4,742,000 Equity**
  - **\$2,500,000 Secondary Loan from City of W-S**
- FSC projects further investment of \$1-3.5 million upon securing a tenant
  - Will be funded by a combination of debt and equity, at which point we will repay the City loan similar to the process at UCIC and Park at 74.
- FSC and the City already have the paperwork in place that outlines the legal framework for this partnership, including the City's loan being subordinate to a primary mortgage on the property.

### EXHIBIT A

*New spec building will be constructed on Lot 4 in UCIC. Lot 3 is the location of the new Ziehl-Abegg development and Building 1 was the original spec building partnership with the City.*

## UCIC MASTER SITE PLAN

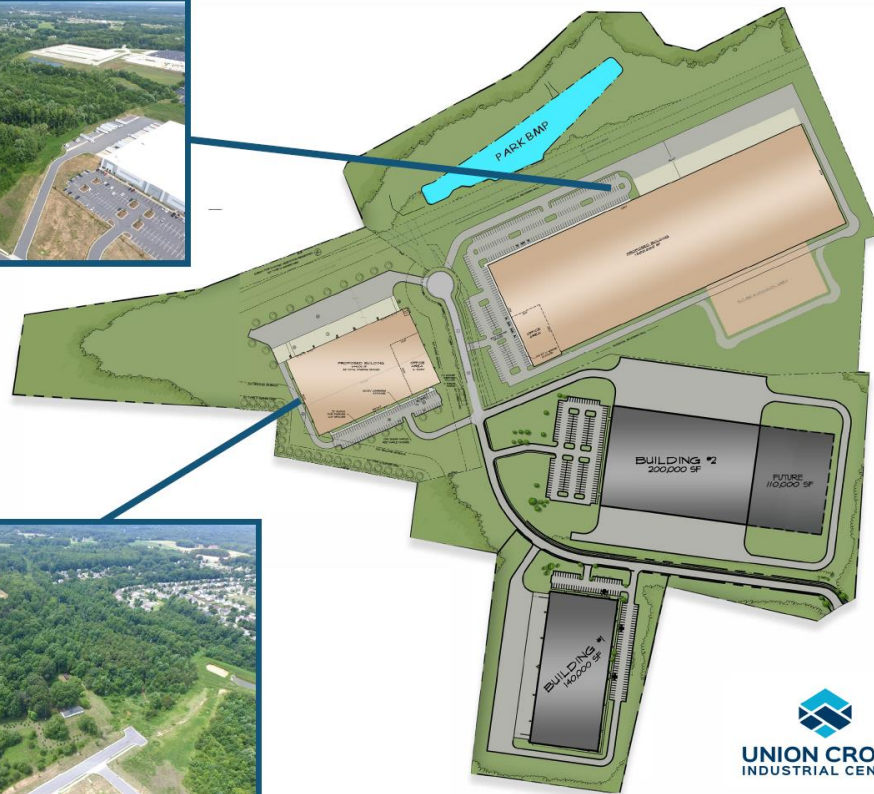
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LOT 3



LOT 4





## **EXHIBIT B**

Summary below outlines the City's total investment and return from tax base generation across the FSC projects in UCIC and Park at 74.

<b>Summary from Investment Return to City from UCIC Loan</b>								
	<u>1/1/2018</u>	<u>1/1/2019</u>	<u>1/1/2020</u>	<u>1/1/2021</u>	<u>1/1/2022</u>	<u>1/1/2023</u>	<u>1/1/2024</u>	<u>1/1/2025</u>
City Investment	\$ (2,470,450)	\$ -	\$ -	\$ (2,500,000)	\$ -	\$ (2,500,000)	\$ -	\$ -
Project A / UCIC (Southern Carlson)	\$ -	\$ 96,544	\$ 99,555	\$ 98,829	\$ 100,637	\$ 100,637	\$ 100,637	\$ 100,637
Project B / Wallburg Spec (USTC)	\$ -	\$ -	\$ -	\$ -	\$ 185,446	\$ 185,446	\$ 185,446	\$ 185,446
Project C / UCIC IV (Spec)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,636	\$ 111,272	\$ 111,272
BUNZL (UCIC)	\$ -	\$ 113,872	\$ 118,053	\$ 120,358	\$ 122,559	\$ 122,559	\$ 122,559	\$ 122,559
Ardagh (Wallburg)	\$ -	\$ -	\$ -	\$ -	\$ 305,912	\$ 305,912	\$ 305,912	\$ 305,912
Ziehl Abegg (UCIC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 208,635	\$ 417,270	\$ 417,270
Vacant Land Tax Revenue	\$ -	\$ 20,026	\$ 20,303	\$ 23,713	\$ 24,146	\$ -	\$ -	\$ -
Return of Capital	\$ -	\$ 2,470,450	\$ -	\$ -	\$ -	\$ 2,500,000		\$ 2,500,000
Totals	\$ (2,470,450)	\$ 2,700,892	\$ 237,911	\$ (2,257,100)	\$ <b>738,700</b>	\$ <b>978,824</b>	\$ <b>1,243,095</b>	\$ <b>3,743,095</b>
<b>Total Return</b>	<b>0.00%</b>	<b>9.22%</b>	<b>9.52%</b>	<b>9.72%</b>	<b>29.55%</b>	<b>39.15%</b>	<b>49.72%</b>	<b>49.72%</b>
<b>IRR</b>	<b>31.78%</b>							
<b>Average Annual Return</b>	<b>24.57%</b>							