



July 6th, 2020

Evan Raleigh
Assistant City Manager

Re: City Partnership for Economic Development

Evan,

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 (and in other similar FSC projects, office 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 modern facilities or shovel-ready sites.

Through the recent help of the City of Winston-Salem in 2018, Front Street was able to kick-off a new industrial park, Union Cross Industrial Center, building a 140,000 square foot speculative industrial building and all horizontal infrastructure necessary to build out the park. Bringing this 100-ac site 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 construction and after delivery of the spec building.

Below is a brief breakdown of FSC's recent City partnership including the overall economic impact and ultimate return the City will earn because of this successful project.

UCIC Project Overview

Project Background – The City of W-S had already committed to Winston-Salem Business, Inc. (WSBI) a defined investment amount for WSBI to develop a speculative industrial building on the available land at Union Cross Business Park. This agreement was memorialized in April of 2015 between the City and WSBI for the construction of a 50-60,000sf speculative industrial building. After learning of our intentions to develop a speculative industrial building at Union Cross Industrial Center (UCIC), 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 WSBI to propose this to the City and ultimately approve the



City's original investment to be re-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.

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 WSBI

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 (140,000sf)
 - 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 (200,000sf expandable to 300,000)
 - Total Project Investment: \$12,200,000
 - All equity and debt procured by FSC
 - Completed 2Q 2019

UCIC is the ONLY state certified, shovel-ready site in Forsyth County that can accommodate a facility over 500,000sf. This is critical to the economic development and marketing efforts of our region. Without this site, Forsyth County is not even 'making the list' for major economic development projects looking in North Carolina.

FSC Payback to City

- FSC paid to City \$1,618,890 (of \$2,489,797) by 7.1.2019
- FSC paid remaining funds of \$870,907 to City by 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 also delivered over \$22MM in additional tax base, added jobs, economic diversification from two new employers from outside the City/County, and two remaining sites for additional industrial development.

Below is an outline of the direct investment made by the City and a return analysis projected over a five-year period. This five-year period will ideally see the remaining sites developed and are included in years 3 and 5 in the financial return model.

City Return on Investment

City return from investment in spec building

- \$116,570 in net, new annual tax revenue from spec building and land acquisition
- full loan payback in 16 months

Return to city from spec building, Bunzl Corp development, land acquisition

- \$230,442 in net, new annual tax revenue

Potential total return to City from UCIC full build-out

- \$545,000 +/- in net, new annual tax revenue



Summary from Investment Return to City from UCIC Loan

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
City Investment	\$(2,470,450.00)	\$-	\$-	\$-	\$-	\$-
Spec Building Tax Revenue	\$-	\$24,135.94	\$96,543.76	\$96,543.76	\$96,543.76	\$96,543.76
BUNZL Tax Revenue	\$-	\$28,467.90	\$113,871.59	\$113,871.59	\$113,871.59	\$113,871.59
Vacant Land Tax Revenue	\$20,026.18	\$20,026.18	\$20,026.18	\$20,026.18	\$20,026.18	\$10,013.09
Lot 4 (future)	\$-	\$-	\$-	\$96,543.76	\$96,543.76	\$96,543.76
Lot 3 (future)						\$227,743.18
Return of Capital	\$-	\$2,470,450.00	\$-	\$-	\$-	\$-
Total Added Tax Base	\$(2,450,423.82)	\$2,543,080.02	\$230,441.53	\$326,985.29	\$326,985.29	\$544,715.39
Total Return	0.81%	2.94%	9.33%	9.33%	13.24%	22.05%
IRR	31.80%					
Annualized Total Return	10.63%					

New Public/Private Partnership at Wallburg Road

FSC is proposing a partnership with the City in the same manner as UCIC so that we can begin work delivering a new industrial park on Wallburg Road. FSC has recently 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 (see Exhibit A for a map). We believe that given the speed of our UCIC loan payback and the City's expectation of those funds being used for a full five years, we can utilize the same City funds to deliver additional tax base and prepare for future projects. Given the scarcity of shovel-ready land and modern industrial buildings in W-S/Forsyth County, it is imperative that we continue to improve on our assets and maintain a competitive inventory in today's fast-paced market. We are confident that with current market activity and our expertise in developing modern industrial parks, we can produce the same successful partnership with the City and deliver the diversified economic development opportunities that are greatly needed across our area.



Developer Expenses PRIOR to City Loan

- Land Acquisition: \$5,350,000 (complete)
- 2 Yr Carrying Costs: \$235,000
- Park Engineering: \$225,000 (in process)
- Site Certification: \$20,000 (in process)
- Branding/Signage: \$25,000 (in process)
- Landscape Improvements: \$100,000

TOTAL DEVELOPER EXPENSES: \$5,955,000

Proposed Uses of Funds from City Loan

In today's market environment, 'speed to market' is what wins the most projects. We can no longer be competitive by just having raw, available land that requires additional time for preparation prior to project commencement. It is critical that we start all horizontal improvements, deliver sites that are either shovel or pad-ready, and commit to a timeline of delivering speculative building(s) of various sizes.

FSC will use the City Loan to accomplish the same goal that was achieved at UCIC, the development of a speculative industrial building that not only adds available product to our region's economic development inventory but also kicks off additional activity at the remaining sites within the park.

FSC commits deliver a 250,000 square foot speculative industrial facility at Wallburg Road within 12 months from the funding of a City loan.

Cost of Proposed 250,000sf Spec Industrial Building (approximate)

- **Total Cost Shell Building (prior to tenant): \$12,500,000**
- **Total Development Cost (with tenant): \$14,900,000**

General Terms for City Assistance

1. Front Street Capital agrees to the same terms as previously negotiated with the City for the completion of the spec building at UCIC (see Economic Development Agreement negotiated between City and WSBI with the effective date of 4.23.15)
2. A highlight of the primary terms include, but are not limited to, the following:
 - a. The City is vitally interested in the economic welfare and diversity of its citizens and the creation of business opportunities and sustainable jobs for its citizens and therefore wishes to provide the necessary conditions to stimulate investment in the local economy and to encourage economic growth and



development opportunities which the City has determined the project outlined herein will provide.

- b. FSC proposes to construct a speculative industrial building that will contain approximately 250,000 square feet with expansion capabilities ('Facility'). The financial resources used to construct and maintain the Facility shall consist of public and private funds. In terms of public funds, FSC requests to borrow an amount not to exceed \$2.5 million ('Loan') for the construction of the Facility.
- c. FSC expects the Facility will have an initial aggregate taxable value of approximately \$12 million with potential to increase to approximately \$15 million upon completion of future tenant improvements. This does not include improvements and FF&E that the tenant will place within the building.
- d. The City recognizes that the project will bring direct and indirect benefits to the City, including immediate job creation in the form of construction jobs and potential long-term job creation, local economic diversification and stimulus.
- e. FSC plans to use, where possible, local contractors and subcontractors including MWBE contractors, subcontractors and others to achieve 'Local Stimulus Measures'
- f. FSC agrees to construct the Facility on the subject property within 24 months from the receipt of the approved Loan from the City.
- g. Upon securing a tenant for the speculative project and completing the tenant improvements (as defined by the issuance of a Certificate of Occupancy from the WS/FC Inspections Department) FSC will either refinance or sell the completed asset. At this point, FSC will repay the City the full amount of the loan. The term of this loan repayment is five (5) years from completion of the Facility as defined above.
- h. Capital Investment & Job Creation – FSC commits to making commercially reasonable efforts to require any new tenant or purchaser of the Facility to commit to: (i) making an additional capital investment of at least \$1 million (above the core and shell improvements) in the Facility over a five year period commencing with the occupancy or purchase of the Facility, (ii) locating and operating in W-S for at least five (5) years commencing with the occupancy or purchase of the Facility, and (iii) create at least five (5) new jobs within five years from the occupancy or purchase of the Facility. Such new jobs shall pay at least a livable wage for Forsyth County.