MEMO

To: Far South Community Development Corporation
From: SB Friedman Development Advisors
Date: November 20, 2019

RE: Far South Real Estate and Financing Market Assessment

Executive Summary

Far South Community Development Corporation ("Far South CDC") is exploring the feasibility of partnering with the U.S. Small Business Administration (SBA) to provide business financing through the 504 Loan Program. The SBA 504 Loan Program is an alternative form of financing to provide businesses with long-term, fixed-rate loans with minimal equity requirements to acquire property and equipment for expansion or modernization. Loans are offered through Certified Development Companies (CDCs), which are non-profit corporations that promote economic development within their communities. CDCs are certified and regulated by the SBA, and work with the SBA and participating lenders (typically banks) to provide 504 loans.

Prior to initiating the application process to become an SBA-regulated CDC, Far South CDC engaged SB Friedman to conduct an assessment to further understand the real estate and financing-related challenges facing businesses within their service area, which includes the far south side of Chicago, southern Cook County, and northwest Indiana (the "Study Area"). Through the assessment, Far South CDC also seeks to assess the need for additional tools to support real estate development and employment growth in the Study Area, such as SBA 504 loans.

STUDY AREA

The Study Area includes four subareas, as defined by Far South CDC. While these subareas share certain similarities, they also face unique challenges, are home to different stakeholders, and have distinct demographic characteristics. Understanding and illustrating the heterogeneity found across the Study Area therefore provides an opportunity for Far South CDC to develop focused and strategic initiatives that support local community development goals and leverage existing resources, such as the 504 Loan Program. The Study Area subareas, presented in **Figure 1** on the following page, include:

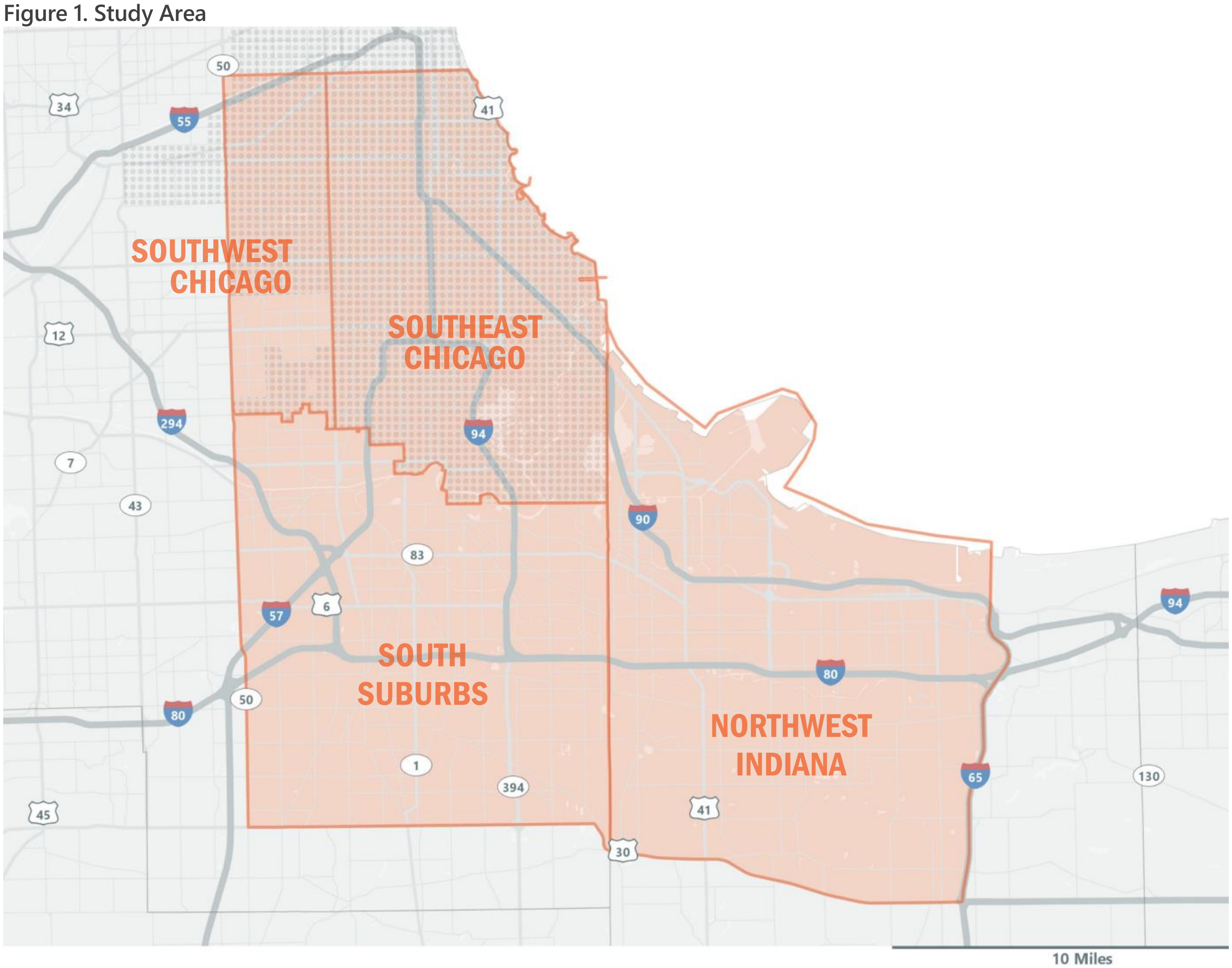
- **Southeast Chicago,** bounded by 35th Street to the north, Lake Michigan and the Illinois/Indiana state border to the east, the City of Chicago boundary to the south, and Western Avenue to the west. Chicago Community Areas within this subarea include but are not limited to Auburn Gresham, Back of the Yards, Chatham, Englewood, Greater Grand Crossing, Hegewisch, Hyde Park, Kenwood, Pullman, Riverdale, Roseland, South Deering, South Shore, Washington Park, West Pullman and Woodlawn.

- **Southwest Chicago,** bounded by 35th Street to the north, Western Avenue to the east, the City of Chicago boundary to the south, and Cicero Avenue (Illinois Route 50) to the west. Chicago Community Areas within this subarea include Archer Heights, Ashburn, Brighton Park, Chicago Lawn, Gage Park, West Elsdon and West Lawn. Other communities include Evergreen Park and Oak Lawn, Illinois.

- **South Suburbs,** bounded by the City of Chicago boundary to the north, the Illinois/Indiana state border to the east, U.S. Route 30 to the south, and Cicero Avenue to the west. Communities within this subarea include but are not limited to Blue Island, Calumet City, Calumet Park, Chicago Heights, Country Club Hills, Dolton, Flossmoor, Glenwood, Harvey, Hazel Crest, Homewood, Lansing, Lynwood, Midlothian, Olympia Fields, and South Holland, Illinois.

- **Northwest Indiana,** bounded by Lake Michigan to the north, Interstate 65 to the east, U.S. Route 30 to the south, and the Illinois/Indiana state border to the west. Communities within this subarea include but are not limited to East Chicago, Gary, Griffith, Hammond, Highland, Merrillville and Munster, Indiana.

Figure 1. Study Area



Source: Esri, Far South CDC, SB Friedman, US Census

METHODOLOGY

To assess real estate and financing-related challenges facing businesses within the Study Area, SB Friedman evaluated demographic trends, development activity, and capital investment activity in the Study Area and compared Study Area characteristics to geographies elsewhere in the Chicago region. Our work included:

- Evaluating demographic and socioeconomic trends;
- Analyzing historic and forecasted employment growth by sector;
- Reviewing recent office and industrial/flex development and real estate performance;
- Analyzing the existing mix of businesses in the industrial and office sectors;
- Assessing recent financial investment patterns;
- Interviewing key informants to gather additional information regarding real estate and financing-related challenges facing businesses in the Study Area; and
- Estimating the impact of an SBA 504 loan on project financial feasibility.

SUMMARY OF FINDINGS

Based on these analyses, SB Friedman has determined that the Study Area is lagging behind the region in population trends, socioeconomic conditions and lending activity. Nevertheless, population projections, employment forecasts, and recent industrial and office development activity collectively point to opportunities for Far South CDC to make impactful investment in the Study Area through the SBA 504 Loan Program.

Demographic & Employment Trends

Our analysis indicates the Study Area is trailing the region in recent demographic trends and socioeconomic factors. As would be anticipated given Chicago's known history of racial and ethnic segregation, over half of the population in the Study Area is Black as of 2018, and nearly 30% of the population is of Hispanic origin. The Study Area has experienced steady population declines since 2000, and residents have a lower median household income and lower levels of educational attainment than the rest of the region. The Study Area is also lagging economically. Total employment in the Study Area fell by approximately 68,000 jobs between 2002 and 2015. As of 2018, the civilian unemployment rate in the Study Area (10.7%) was nearly twice the regional average civilian unemployment rate (5.4%).

Despite these historical trends, population forecasts project that the Study Area will return to and eventually exceed prior population levels by 2050. While these projections may be optimistic, any level of population growth could serve as a precursor to, and result of, improved socioeconomic conditions. Likewise, although employment losses are projected to continue over the next 10 years, key employment sectors are projected to bring new jobs to the Study Area. Investing in these sectors, such as Transportation and Warehousing, could provide wide-reaching economic benefits for the Study Area.

Real Estate-Related Challenges and Opportunities

Recent development trends in CoStar-defined submarkets that intersect the Study Area similarly reveal opportunities for future investment. There has been notable industrial/flex development activity in the Study Area in recent years and the industrial/flex market in the Study Area appears to be performing well relative to the region overall. Key industrial clusters are located within the Study Area and could be leveraged for successful real estate investment moving forward. While there has been minimal office development activity in the Study Area in recent years, and the marketability of the Study Area is limited from a corporate user's perspective, a "wild card" project could be identified. Together, industrial/flex and office development trends and employment forecasts demonstrate opportunities for real estate and employment growth within the Study Area.

Approximately 4,200 industrial sector businesses and 6,200 office sector businesses in the Study Area have sales of $5 million or less. Should any of these businesses be looking to expand or modernize, it is possible that they could qualify for the SBA 504 Loan Program, provided other underwriting requirements are met. Potentially qualifying businesses account for 74% of total industrial businesses and 95% of total office businesses, indicating that Study Area businesses align well with the objectives of the SBA 504 Loan Program.

Financing-Related Challenges and Opportunities

Small businesses in the Study Area face real estate and financing-related challenges. These conclusions are supported and documented by research on small business lending and access to capital, both nationally and in the Chicago region. This research points to challenges small businesses in majority-minority and lower-income communities face with the underwriting, collateral and equity requirements of traditional lenders, as well as a disproportionate lack of access to financing depending on the small business and/or project type.

SB Friedman's review of recent financing activity further demonstrates limited lending activity has occurred in the Study Area relative to the region. Moreover, the Study Area has received limited investment from both traditional financing markets and the SBA 504 Loan Program and there has been a disproportionate share of SBA 504 Program investment activity (as a percent of total City-wide investment) within minority census tracts in Chicago, relative to comparable cities. There is consequently ample need for additional active lenders in the area, who could and would focus their investment efforts accordingly.

By partnering with the SBA on 504 loans, Far South CDC could assist businesses with the:

- Purchase of existing buildings;
- Purchase of land and land improvements;
- Construction of new facilities or modernizing, renovating or converting existing facilities;
- Purchase of long-term machinery; or
- Refinancing of debt in connection with an expansion of the business through new or renovated facilities or equipment.

In addition to providing financing, the SBA guarantee would allow Far South CDC to address larger challenges regarding access to capital. Through the 504 Loan Program, Far South CDC could reduce the amount of upfront equity required and provide more favorable financing terms. As a result, borrowers would see improved cash flows and better overall returns. Far South CDC can also have greater and more widespread impacts insofar as they can leverage other programs that are similarly designed to address demographic, real estate and financing-related challenges in the Study Area.

Introduction to the SBA 504 Loan Program

The SBA 504 Loan Program is an economic development tool that provides an alternative source of debt for small businesses seeking financing for business expansion and/or job growth. Once certified, CDCs can provide debt financing for up to 40% of a qualified small business's qualifying total project costs, with a traditional lender providing an additional 50% of the debt financing. The CDC's SBA contribution is funded by the sale of SBA guaranteed bonds. Combined, these debt sources decrease the small business borrower's equity requirement from the more traditional 20-25% of total project cost to as low as 10%. SBA 504 Loans from CDCs can total up to $5.0 million ($5.5 million for small manufacturers) before accounting for the traditional debt and borrower equity components of the transaction. However, there are no restrictions regarding maximum project size and/or the use of additional sources of capital.

Businesses that qualify for financing under the 504 Loan Program are required to have assets that do not exceed $15.0 million and an average annual net revenue of no more than $5.0 million for the prior two years (after federal income taxes). Qualified uses for SBA 504 Loans include the:

- Purchase of existing buildings;
- Purchase of land and land improvements;
- Construction of new facilities or modernizing, renovating or converting existing facilities;
- Purchase of long-term machinery; or
- Refinancing of debt in connection with an expansion of the business through new or renovated facilities or equipment.

While SBA 504 Loans cannot be used for working capital or inventory, the loans typically have longer terms and lower interest rates than traditional small business financing, and therefore provide savings that can result in improved cash flow for small businesses. Equipment loans are eligible for up to 10-year terms, while real estate loans are eligible for 10-, 20- or 25-year terms. At the end of 2018, interest rates offered in the Chicago region ranged from 4.9-5.2% depending on the term of the loan. Although project assets and personal guarantees from the borrowers are typically required as collateral for SBA 504 Loans, the SBA guarantee accompanying the SBA portion can lower the collateral requirements of traditional lenders involved in the transaction.

Businesses receiving financing through the SBA 504 Loan are generally required to create or retain one job for every $65,000 guaranteed by the SBA, or one job for every $100,000 guaranteed for small manufacturers. Businesses may also qualify for SBA 504 Loans if they meet SBA community development and/or public policy goals. These goals include but are not limited to:

- Improving, diversifying or stabilizing the local economy;
- Stimulating other business development;
- Bringing new income into the community;
- Assisting manufacturing firms to expand firm productivity and competitiveness;
- Modernizing or upgrading facilities to meet health, safety and environmental requirements; and
- Expanding small businesses owned and controlled by women-, veteran- and/or minority-owners.

Existing CDCs that are active in the Study Area include: the Regional Development Company, the Small Business Growth Corporation, SomerCor 504, Inc. and Wessex 504 Corporation. In fiscal year 2018, these four CDCs supported the issuance of 64 SBA 504 loan transactions with a total SBA loan value of approximately $54.6 million across Illinois. In the Study Area, they supported the issuance of 20 SBA 504 loan transactions with a total SBA loan value of approximately $13.2 million.

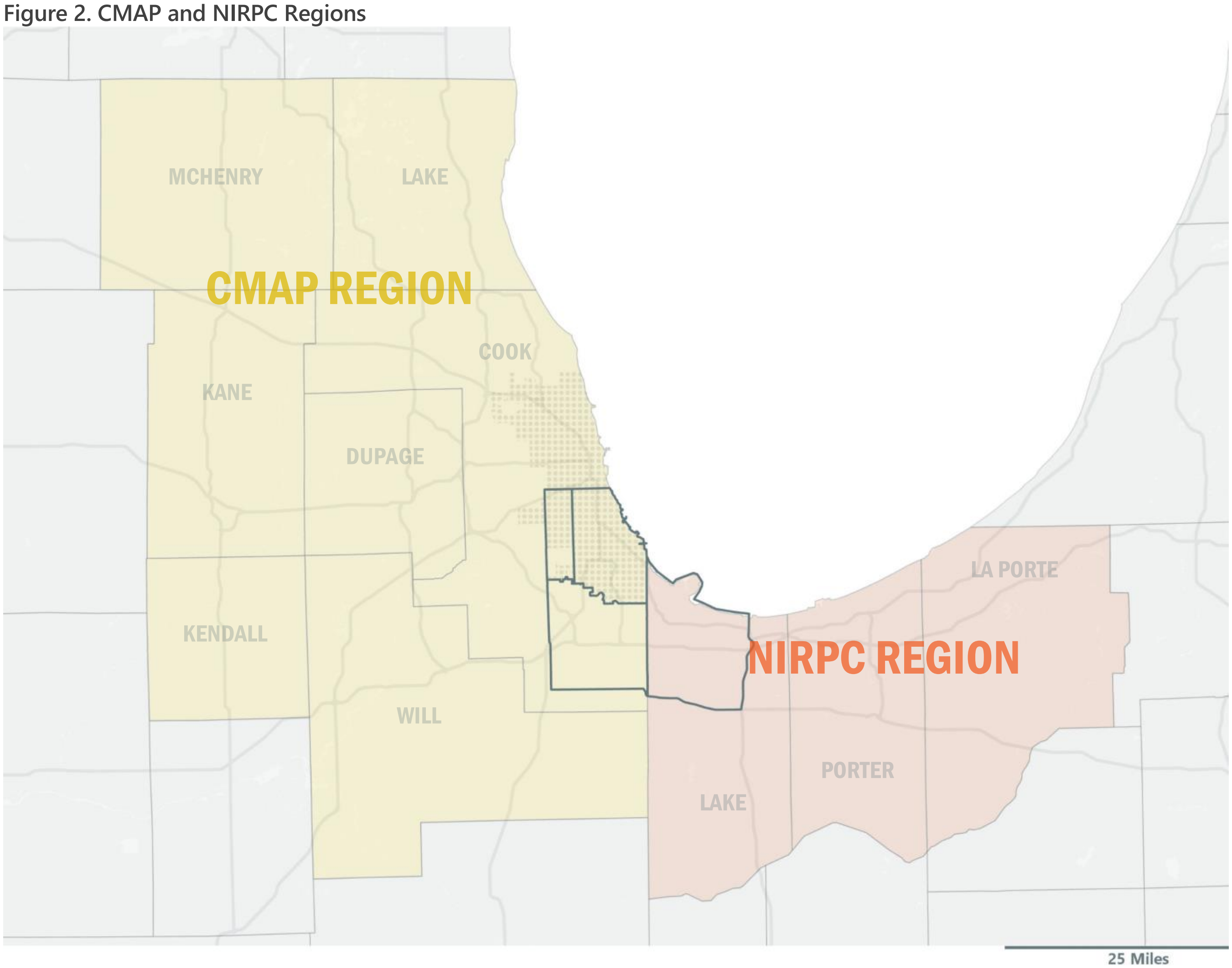
Demographic Trends

Far South CDC views the 504 Loan Program as a means to build their capacity to support economic development and bring additional business investment to one of the most economically challenged areas in the Chicago region. To contextualize Study Area challenges, SB Friedman analyzed historic and forecasted demographic and socioeconomic data, including:

- 2000 and 2018 demographic data from Esri;
- 2023 population forecasts from Esri; and
- 2050 population forecasts from local Metropolitan Planning Organizations (MPOs): the Chicago Metropolitan Agency for Planning (CMAP) and the Northwestern Indiana Regional Planning Committee (NIRPC).

These data were then evaluated relative to other geographies within the Chicago region to illustrate the unique challenges facing the Study Area. **Figure 2** presents the Study Area's location within the comparative geographies used in the demographic analysis, the CMAP and NIRPC regions (or combined, the "Chicago MPO Region").

Figure 2. CMAP and NIRPC Regions



Source: CMAP, Esri, NIRPC, SB Friedman, US Census

POPULATION TRENDS

As of 2018, the Study Area was home to approximately 1.6 million residents, a net decline of nearly 158,000 residents since 2000. Over the past 18 years, the population within the Study Area has decreased at a compound annual growth rate (CAGR) of -0.5%. Cook County was the only county in the Chicago region to experience a net population loss since 2000 and much of the loss occurred within the Study Area. The largest decline occurred in Southeast Chicago, which lost approximately 117,000 residents, nearly 75% of the total decline in the Study Area.

Esri projects that population loss will continue over the near-term; however, long-term population forecasts from CMAP and NIRPC indicate that population loss may reverse, with 313,000 new residents projected in the Study Area by 2050 (CAGR 2018-2050 of 0.5%). Over half of the forecasted Study Area growth, or approximately 162,000 residents, is projected to occur in the Southeast Chicago subarea, while only 1,800 residents, or 1% of the forecasted regional growth, is projected in the Northwest Indiana subarea.

Figure 3. Subarea Population Trends

	SE Chicago	SW Chicago	South Suburbs	NW Indiana	Total
2000 Population [1]	782,400	314,400	372,400	325,000	**1,794,200**
2018 Population [1]	665,800	322,100	354,400	296,300	**1,638,600**
2023 Population [1,2]	665,500	322,000	350,700	289,600	**1,627,700**
2050 Projected Population [1,3]	827,900	359,000	466,600	298,200	**1,951,600**
CAGR 2000-2018	-0.9%	0.1%	-0.3%	-0.5%	**-0.5%**
CAGR 2018-2023	0.0%	0.0%	-0.2%	-0.5%	**-0.1%**
CAGR 2018-2050	0.7%	0.3%	0.9%	0.0%	**0.5%**

[1] Rounded to the nearest 100
[2] Based on Esri projections
[3] Based on CMAP and NIRPC population projections by Local Analysis Zones (LAZ) or Travel Analysis Zones (TAZ), allocated based on the percentage of the LAZ/TAZ acreage within each subarea.
Source: Esri Business Analyst, CMAP, NIRPC, SB Friedman

Figure 4. Annual Population Growth Rate

Geography	Historic CAGR 2000-2018	Projected CAGR 2018-2050	Geography	Historic CAGR 2000-2018	Projected CAGR 2018-2050
Study Area	**-0.5%**	**0.5%**	**Study Area**	**-0.5%**	**0.5%**
CMAP Region	**0.3%**	**0.7%**	**NIRPC Region**	**0.3%**	**0.3%**
Cook County	-0.1%	0.4%	Lake County	0.1%	0.1%
DuPage County	0.2%	0.5%	LaPorte County	0.1%	-0.1%
Kane County	1.7%	1.1%	Porter County	0.9%	0.9%
Kendall County	4.7%	2.3%			
Lake County	0.5%	0.7%			
McHenry County	1.0%	1.3%			
Will County	1.9%	1.3%			

[1] Rounded to nearest 100
Source: Esri Business Analyst, CMAP, NIRPC, SB Friedman

CURRENT SOCIOECONOMIC DEMOGRAPHICS

In aggregate, the Study Area is a majority-minority community. More than half of the population is Black, a rate three times that of both the CMAP and NIRPC regions, and nearly 30% is of Hispanic origin. Black communities are concentrated in the Southeast Chicago (77% black) and South Suburbs (56%) subareas, while over 60% of the population in the Southwest Chicago subarea is of Hispanic origin.

Residents of the Study Area have below average median household incomes and levels of educational attainment, relative to the Chicago MPO Region. The median household income in the Study Area is $43,700, which is significantly below the median household income for the CMAP region ($68,600) and NIRPC region ($55,700). As of 2018, 16% of the Study Area population did not have a high school diploma, which is approximately 40% greater than the Chicago MPO Region as a whole. College-level education attainment also lags the combined Chicago MPO Region with approximately 30% of Study Area residents obtaining an Associate Degree or higher.

Figure 5. Subarea Demographic Information

	SE Chicago	SW Chicago	South Suburbs	NW Indiana	Total
2018 Population by Race/Ethnicity					
White Alone	12.9%	51.2%	32.0%	52.2%	**31.7%**
Black Alone	76.7%	15.7%	55.9%	33.8%	**52.5%**
Hispanic Origin	14.4%	60.9%	19.0%	27.0%	**26.8%**
Median Household Income [1]	$35,500	$53,400	$52,200	$46,300	**$43,700**
Median Home Value [1]	$162,800	$195,900	$147,800	$127,500	**$157,700**
Median Age	35.2	31.1	36.0	36.5	**34.7**

[1] Rounded to the nearest 100
Source: Esri Business Analyst, CMAP, NIRPC, SB Friedman

Figure 6. Socioeconomic Comparative Analysis

	Median Household Income (2018) [1]	Median Home Value (2018) [1]	Educational Attainment (2018)		Population by Race/Ethnicity (2018)	
			No High School Diploma	Associate Degree or Higher	Black Alone	Hispanic Origin
Study Area	**$43,700**	**$157,700**	**16.0%**	**29.5%**	**52.5%**	**26.8%**
CMAP Region	**$68,600**	**$262,100**	**11.7%**	**46.3%**	**17.0%**	**25.4%**
Cook County	$59,700	$256,900	13.2%	44.9%	23.4%	27.7%
DuPage County	$86,200	$314,200	7.0%	56.3%	5.1%	16.1%
Kane County	$77,400	$247,300	15.7%	41.4%	5.5%	34.2%
Kendall County	$90,500	$235,900	6.4%	45.0%	7.4%	21.5%
Lake County	$88,100	$285,300	9.4%	51.8%	7.1%	24.1%
McHenry County	$82,400	$242,400	6.9%	43.5%	1.6%	15.2%
Will County	$83,500	$237,800	8.5%	43.5%	11.7%	19.9%
NIRPC Region	**$55,700**	**$163,500**	**11.2%**	**31.7%**	**18.9%**	**19.4%**
Lake County	$54,000	$156,700	12.0%	30.7%	24.0%	21.9%
LaPorte County	$51,300	$143,500	12.1%	37.4%	11.5%	8.2%
Porter County	$66,600	$190,900	8.0%	31.7%	4.0%	12.1%

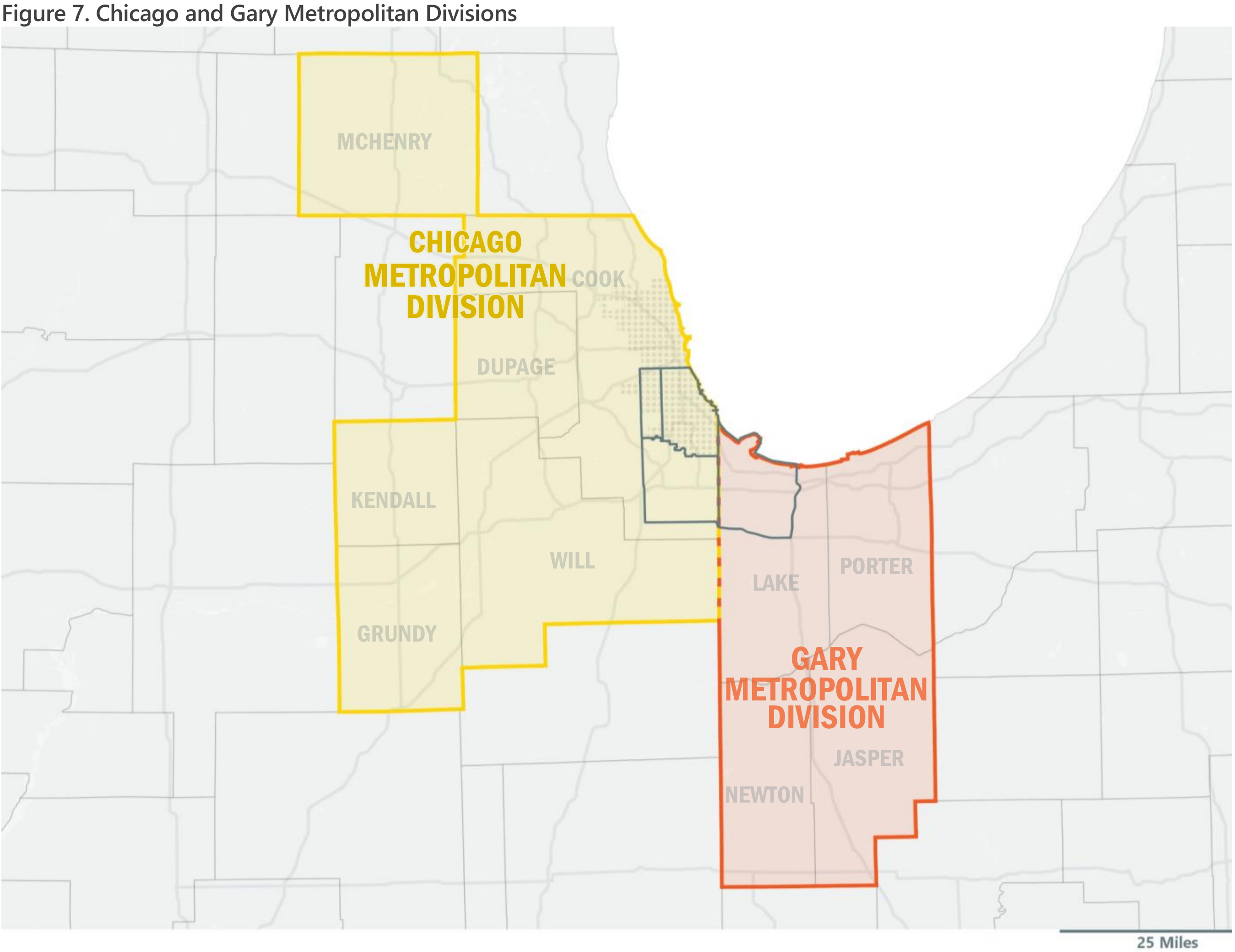
[1] Rounded to nearest 100
Source: Esri Business Analyst, CMAP, NIRPC, SB Friedman

Employment Trends

Many of the demographic and socioeconomic challenges observed in the Study Area are entwined with and exacerbated by challenges in the local labor market. The Study Area was historically a manufacturing hub within the Chicago region and the decline of employment in this sector has resulted in a high rate of unemployment. Employment forecasts indicate that manufacturing jobs will continue to decrease; however, growth is projected in alternate industrial and office sectors. This employment growth presents opportunities for targeted investment efforts in the Study Area.

To evaluate employment trends, SB Friedman aggregated data from the U.S. Census Bureau Center for Economic Studies and Moody's Analytics (Moody's). Moody's historical and forecast data is only available by U.S. Census Metropolitan Divisions; therefore, we assessed trends in the Chicago-Naperville-Joliet IL-IN-WI Metropolitan Division (the "Chicago Metropolitan Division"), the Gary, IN Metropolitan Division (the "Gary Metropolitan Division"), the combined Metropolitan Divisions (the "Metropolitan Region"), and the individual counties within each, as presented in **Figure 7**. To project employment growth within the Study Area, SB Friedman analyzed the Study Area's historic capture of Metropolitan Division employment, derived through data from the U.S. Census, and applied that capture rate, by sector, to metropolitan division employment projections prepared by Moody's.

Figure 7. Chicago and Gary Metropolitan Divisions



Source: Esri, SB Friedman, US Census

OVERALL EMPLOYMENT TRENDS

As of 2018, there were approximately 433,000 total jobs in the Study Area, a decrease of approximately 68,000 jobs since 2002. Nearly 40% of this job loss occurred in industrial sectors, 76% of which was in manufacturing. The greatest loss of employment was in the Southeast Chicago subarea, which lost nearly 27,000 jobs. The estimated civilian unemployment rate in 2018 was 10.7% for the Study Area, which is significantly higher than all comparative geographies.

Nevertheless, employment in the Study Area is projected to increase by nearly 18,000 jobs by 2028 (CAGR of 0.4%). The employment growth projected for the Study Area accounts for approximately 10% of total employment growth projected for the Metropolitan Region. While the number of jobs is projected to increase in the Study Area through 2028, employment levels are not projected to reach 2002 employment levels.

Figure 8. Subarea Employment Trends

	SE Chicago	SW Chicago	South Suburbs	NW Indiana	Total
2002 Employment [1]	139,000	79,100	128,500	143,200	**489,800**
2018 Employment [1]	115,500	71,200	115,700	131,000	**433,000**
2028 Employment [1]	120,500	74,200	120,700	135,100	**450,500**
CAGR 2002-2015	-1.6%	-1.0%	-1.0%	-0.8%	**-1.1%**
CAGR 2018-2028	0.4%	0.4%	0.4%	0.3%	**0.4%**
Civilian Unemployment Rate	14.3%	8.5%	10.5%	6.2%	**10.7%**

[1] Rounded to the nearest 100

Source: Esri Business Analyst, Moody's Analytics, SB Friedman, U.S. Census

Figure 9. Civilian Unemployment Rate (2018)

Geography	Unemployment Rate	Geography	Unemployment Rate
Study Area	**10.7%**	**Study Area**	**10.7%**
Chicago Metropolitan Division	**6.1%**	**Gary Metropolitan Division**	**4.7%**
Cook County	6.9%	Jasper County	2.7%
DuPage County	4.3%	Lake County	5.4%
Grundy County	4.0%	Newton County	4.3%
Kendall County	3.9%	Porter County	3.4%
McHenry County	4.8%		
Will County	4.1%		

Source: Esri Business Analyst, SB Friedman

Figure 10. Annual Employment Growth Rate (Historic and Projected)

	Overall Employment 2002-2015	Overall Employment 2018-2028	Industrial Employment 2018-2028	Office Employment 2018-2028
Study Area	**-1.1%**	**0.4%**	**-0.2%**	**0.2%**
Chicago Metropolitan Division	**0.2%**	**0.4%**	**-0.1%**	**0.4%**
Cook County	-0.1%			
DuPage County	0.4%			
Grundy County	0.7%			
Kendall County	4.1%			
McHenry County	0.0%			
Will County	3.7%			
Gary Metropolitan Division	**0.0%**	**0.3%**	**0.0%**	**0.3%**
Jasper County	0.5%			
Lake County	-0.2%			
Newton County	-5.6%			
Porter County	1.3%			

Source: Esri Business Analyst, Moody's Analytics, SB Friedman, U.S. Census

INDUSTRIAL EMPLOYMENT

As of 2018, industrial employment in the Study Area accounted for approximately 14% of all industrial employment in the Chicago and Gary Metropolitan Divisions. Industrial employment is projected to continue declining throughout the Metropolitan Region; however, the rate of decline anticipated in the Study Area is greater than elsewhere in the region. As a result, industrial employment in the Study Area is projected to decline by nearly 2,200 jobs between 2018 and 2028; these jobs account for 24% of the industrial job loss anticipated across the Metropolitan Region.

The driver of forecasted industrial employment losses continues to be manufacturing. Manufacturing employment in the Study Area is projected to decrease by 5,100 jobs by 2028. These job losses are particularly concentrated in the Northwest Indiana, Southeast Chicago and South Suburbs subareas.

Figure 11. Projected Industrial Employment Growth Rates (2018-2028) – Comparative Analysis

	All Industrial Sectors	Construction	Manufacturing	Wholesale Trade	Transp. & Warehousing
Study Area	**-0.2%**	1.1%	-1.0%	0.3%	0.2%
Chicago Metropolitan Division	**-0.1%**	0.6%	-0.9%	0.2%	0.1%
Gary Metropolitan Division	**0.0%**	1.6%	-1.1%	0.5%	0.2%

Source: Moody's Analytics, SB Friedman, U.S. Census

Conversely, employment growth is projected for both the Study Area and the Metropolitan Region in the remaining industrial sectors: Construction, Wholesale Trade, and Transportation and Warehousing. The Study Area is projected to gain approximately 2,000 Construction jobs by 2028, which accounts for 17% of the overall Construction sector growth projected for the Metropolitan Region. The Northwest Indiana subarea is projected to capture 70% of the Construction employment growth projected for the Study Area. This high capture rate can be partly attributed to differing tax structures in Indiana that are more favorable to business.

An additional 1,000 new jobs are projected in the Study Area between 2018 and 2028 in the Wholesale Trade and Transportation and Warehousing sectors. While the forecasted CAGRs for these sectors in the Study Area appear modest (0.3% and 0.2%, respectively), the number of jobs projected accounts for 13% of the growth forecasted in these sectors across the Metropolitan Region. These sectors therefore offer an opportunity for focusing small business investment efforts in the Study Area in future years.

OFFICE EMPLOYMENT

Historically, the Study Area has not been a major office employment market in the Chicago region. As of 2018, office employment in the Study Area accounts for only 4% of the office employment in the Metropolitan Region. Office employment is projected to grow across the region; however, only a small portion (3%) of the regional growth is projected to locate in the Study Area. Alternatively, given that Far South CDC and other stakeholders have identified office development in the Study Area as a goal for future investment efforts, even limited levels of employment growth could prove to have beneficial impacts.

Minimal employment growth is projected for the Information sector in the Study Area and the region, and declines are projected for the Real Estate, Rental & Leasing and Management of Companies & Enterprises sectors. However, these sectors are relatively small. Across the three sectors, approximately 250 jobs are projected to be lost within the Study Area by 2028. This accounts for 11% of the total job loss projected to occur in these sectors across the Metropolitan Region. Employment growth is simultaneously projected in the Finance and Insurance, and Professional, Scientific and Technical Services sectors. In the Study Area, nearly 600 additional jobs are forecast in the Finance and Insurance sector and approximately 400 jobs are forecast in the Professional, Scientific and Technical Services sector. These job gains represent less growth than will be seen in other markets, as they account for only 4% and 3% of the growth projected in these respective sectors across the Metropolitan Region.

Office sectors tend to pose high thresholds for job opportunity, which means employment opportunities do not always meet the needs of more socioeconomically challenged areas. However, similar to industrial employment forecasts, projected office job growth presents an opportunity for targeting future investment within the Study Area and its subareas. Investment efforts could focus on "wild card" tenants and/or complementary initiatives that are focused on aligning employment opportunities with employment needs within the Study Area.

Figure 12. Projected Office Employment Growth (2018-2028) - Comparative Analysis

	All Office Sectors	Information	Finance & Insurance	Real Estate	Prof., Scientific & Tech. Services	Management
Study Area	**0.2%**	0.0%	0.7%	-0.3%	0.4%	-0.2%
Chicago Metropolitan Division	**0.4%**	0.0%	0.7%	-0.3%	0.5%	0.0%
Gary Metropolitan Division	**0.3%**	0.1%	0.8%	-0.3%	0.4%	-0.4%

Source: Moody's Analytics, SB Friedman, U.S. Census

CONCLUSIONS

A clearer understanding of current challenges facing the Study Area emerges when historic employment trends are assessed alongside recent demographic trends. In fact, employment forecasts for the Study Area, which demonstrate future employment levels are unlikely to return to the levels seen historically, indicate that these challenges are entrenched and likely to persist. However, SB Friedman's assessment points to opportunities for impactful investment in emerging industrial and key office sectors within the Study Area.

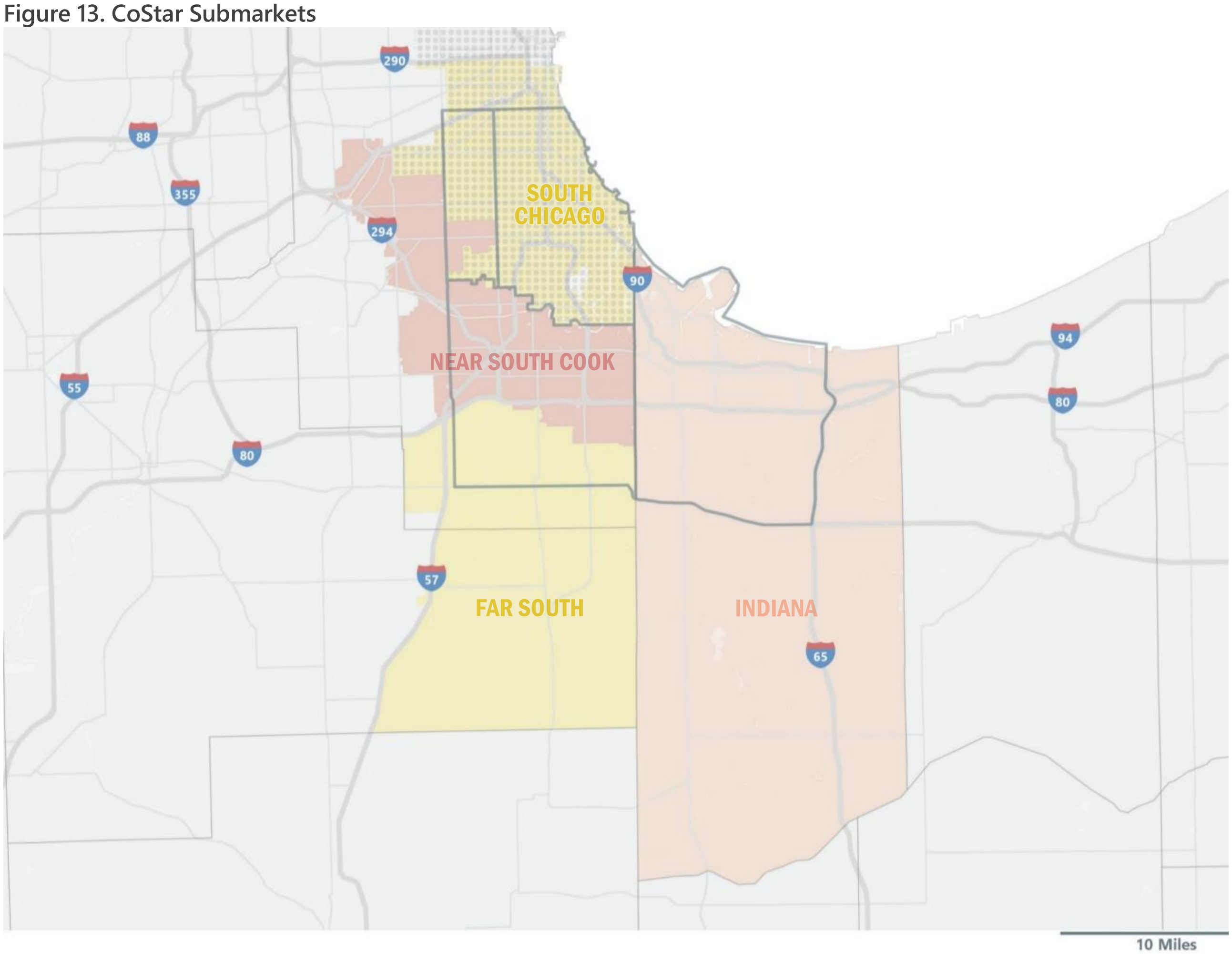
Real Estate Markets

Recent real estate development in the Study Area has been driven by regional and national trends. For industrial/flex, this includes an increase in e-commerce and demand for distribution and warehouse facilities close to urban centers. Industrial/flex location decisions are therefore typically driven by accessibility to transportation (i.e., interstates and arterial roads), relatively inexpensive land, labor force, and clusters of similar or supporting companies and facilities.

While it varies by office typology, office development is alternatively driven by proximity to population, accessibility, convenience and visibility. Class A office space, which refers to the most desirable, best-quality buildings that command the highest rents and sale prices in a market, and offer the most attractive office space, tends to be concentrated in Downtown Chicago and along major interstates and interchanges. Class B office space, which refers to buildings that are generally a little older and available at more competitive rents and sales prices, competes for a wider range of users including medical and professional uses.

CoStar data, organized by submarket, was analyzed to evaluate recent development trends in the Study Area and region. Thirty CoStar submarkets were identified within the region, four of which intersect the Study Area and are used to characterize local development trends: South Chicago, Near South Cook, Far South and Indiana (see **Figure 13**).

Figure 13. CoStar Submarkets



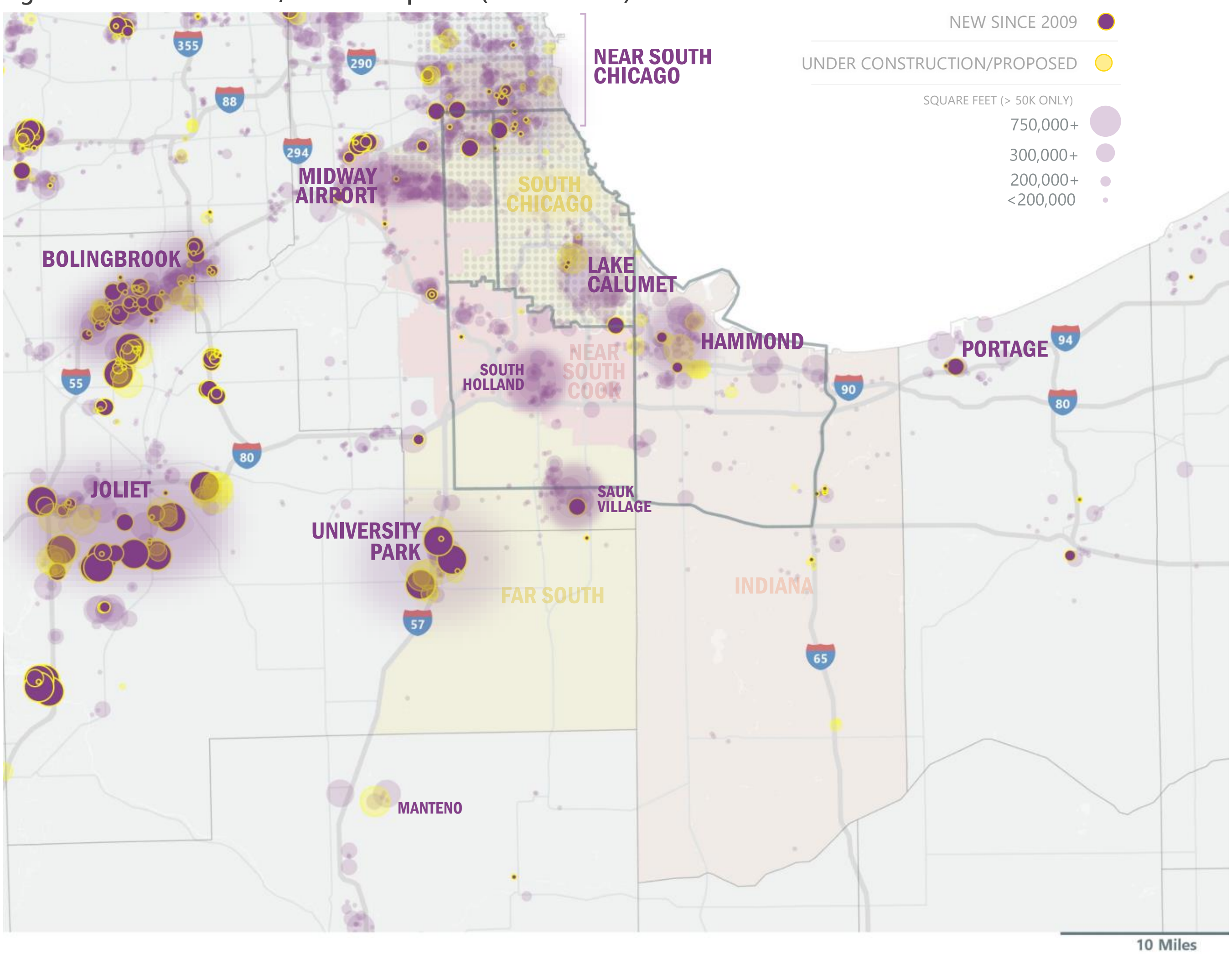
Source: CoStar, Esri, SB Friedman

The industrial/flex and office markets within the submarkets that intersect the Study Area appear to have potential for continued development. In particular, the industrial/flex submarkets provide opportunities to leverage and capture growing employment in the Wholesale Trade and Transportation and Warehousing sectors. Although office real estate demand continues to grow regionally and in downtown Chicago, demand does not appear to be quite as strong in the Study Area. However, there is potential for "wild card" office projects to be successful. At the same time, market potential in Cook County (compared to Will County or Indiana) is challenged by high property taxes. Development projects will likely need support in addition to SBA lending to offset increased operating costs and be financially feasible.

INDUSTRIAL/FLEX REAL ESTATE MARKET

Compared to the region, industrial/flex real estate in the Study Area appears to be performing well. As of 2019, the Study Area industrial/flex market included 148.5 million square feet (SF) of space, 3.2 million SF of which has been built since 2009. Furthermore, an additional 5.4 million SF is currently proposed or under construction. **Figure 14** presents the distribution of recent (since 2009), under construction and proposed industrial/flex development.

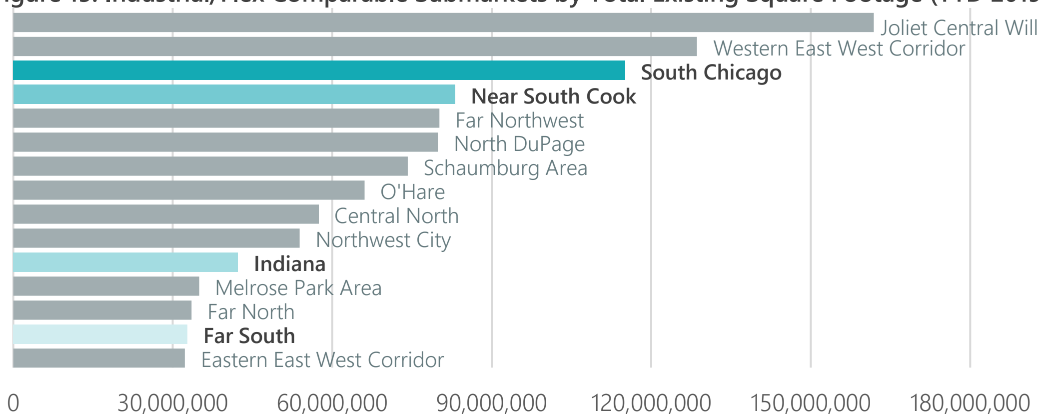
Figure 14. Recent Industrial/Flex Development (2009-Present)



Source: CoStar, Esri, SB Friedman, US Census

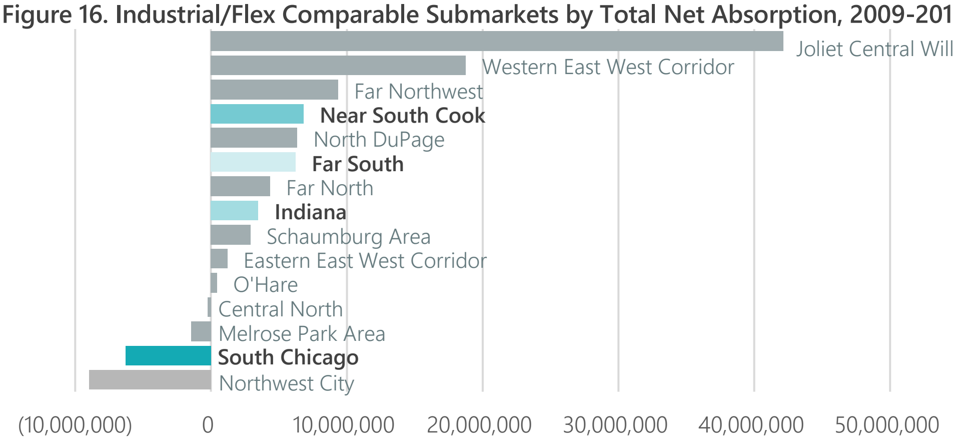
To evaluate the performance of submarkets that intersect the Study Area, relative to the region, SB Friedman identified regional submarkets with at least 30 million SF of industrial/flex development. The submarkets that intersect the Study Area all fall above this 30 million SF threshold, ranking 3rd, 4th, 11th and 14th for total existing industrial/flex square footage in the region (see **Figure 15**). Of these four submarkets, three have experienced positive net absorption over the last 10 years (as presented in **Figure 16**). Positive net absorption reflects historical demand for development. Conversely, negative net absorption generally reflects limited demand for new development. However, it could also demonstrate the removal of older, obsolete product that could present opportunities for redevelopment in the future. Given the level of recent development that has occurred in the South Chicago submarket along Interstate 55, this appears to be the case. It is therefore likely that demand for continued development could exist across all the submarkets in the Study Area.

Figure 15. Industrial/Flex Comparable Submarkets by Total Existing Square Footage (YTD 2019) [1]



[1] Only those submarkets with more than 30 million SF of industrial/flex development as of April 2019 are shown
Source: CoStar, SB Friedman

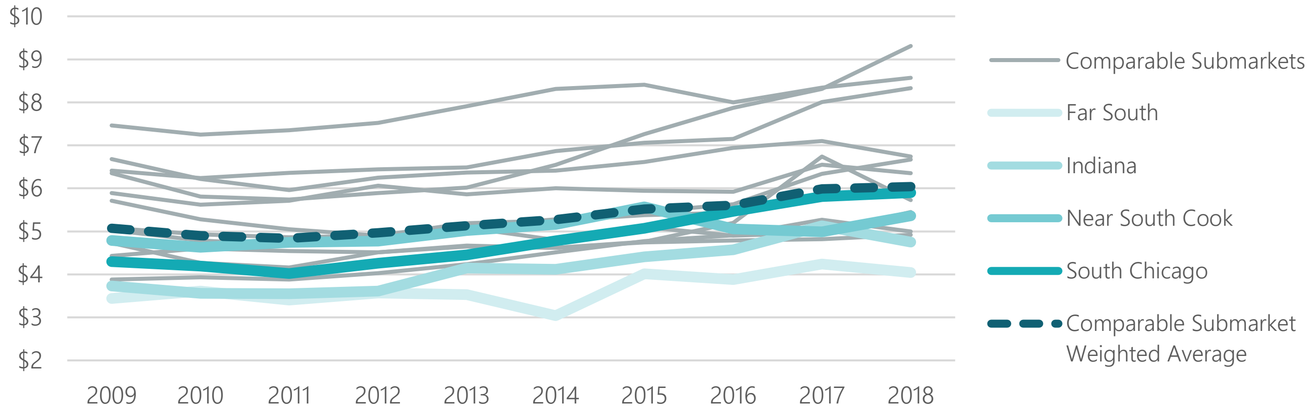
Figure 16. Industrial/Flex Comparable Submarkets by Total Net Absorption, 2009-2018



[1] Only those submarkets with more than 30 million SF of industrial/flex development as of April 2019 are shown
Source: CoStar, SB Friedman

As of 2018, the median and weighted average industrial/flex triple net rents for the 15 comparable submarkets were approximately $5.90/SF and $6.05/SF, respectively. Triple net rents for the submarkets that intersect the Study Area are below the regional median and range from $4.00-5.90/SF as of 2018. The lowest median rents were reported in the Indiana ($4.00/SF) and Far South ($4.75/SF) submarkets. Therefore, Study Area rents appear competitive with other submarkets in the region.

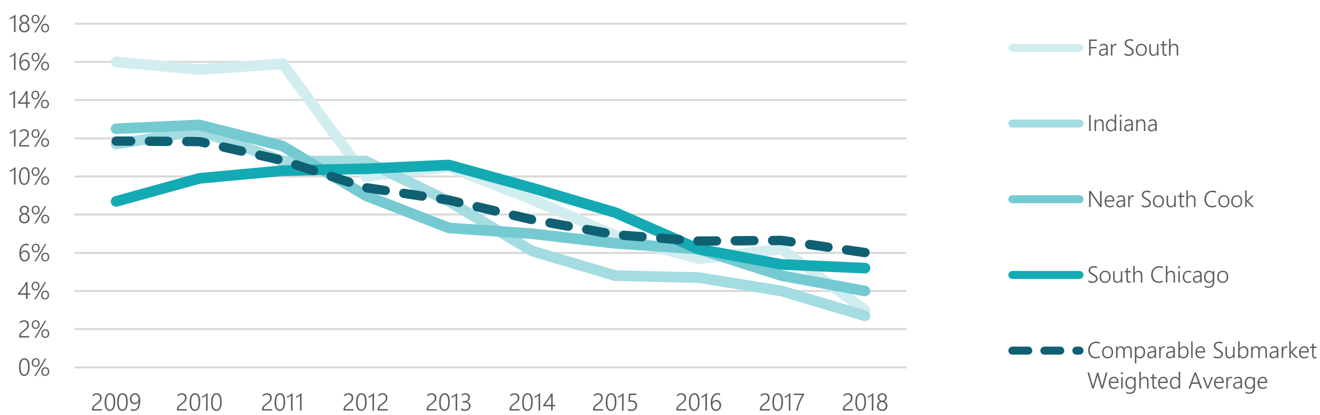
Figure 17. Comparable Submarket Industrial/Flex Triple Net Rents, 2009-2018



Source: CoStar, SB Friedman

The median and weighted average industrial/flex vacancy rates for the 15 comparable submarkets were 4.9% and 6.0% as of 2018, respectively. At the same time, the submarkets that the intersect the Study Area had vacancy rates ranging from 2.7-5.2%. As presented in **Figure 18**, vacancy in the submarkets that intersect the Study Area have steadily declined since 2009. Combined with other factors, lower than average vacancy rates generally reflect tight markets and may indicate demand for new development.

Figure 18. Comparable Submarket Industrial/Flex Vacancy, 2009-2018



Source: CoStar, SB Friedman

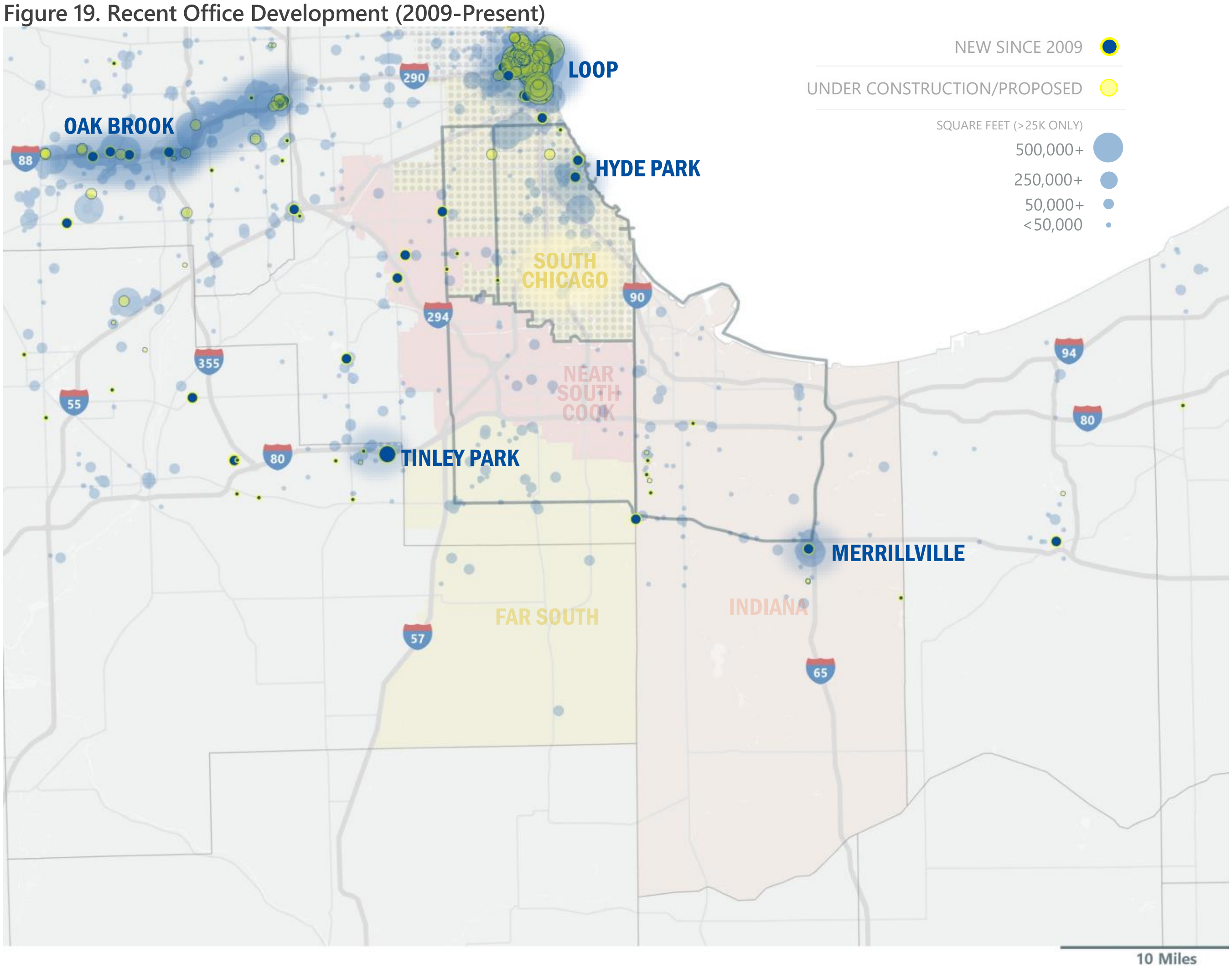
Over the last 10 years, over 80 industrial/flex buildings were developed in the four submarkets that intersect the Study Area, for an average building size of 145,000 SF. In comparison, average building sizes in other select regional submarkets go as high as 300,000-400,000 SF. The typical industrial/flex building in the Study Area therefore appears to reflect smaller operations, such as those Far South CDC indicated they would hope to support should they pursue a partnership with the SBA.

OFFICE REAL ESTATE MARKET

As of 2019, the Study Area office market included 23.9 million square feet (SF) of space, 840,000 SF of which has been built since 2009. Furthermore, an additional 220,000 SF is currently proposed or under construction. **Figure 14** presents the distribution of recent (since 2009), under construction and proposed industrial/flex development.

As previously identified through historical and forecasted office employment trends, the office real estate market may not pose as many opportunities for the Study Area as the industrial market. Notable projects in the South Chicago subarea include Midwest Orthopaedics at Rush Medical, a 12-story professional office building for the University of Chicago as a part of the Harper Court development, and the Chicago Theological Seminary building. Recent projects in the Indiana subarea include Medical Pavilion South in Dyer, Cardinal Medical Campus in Highland, and the Land O'Frost Headquarters in Munster. All of these projects are tenant-driven and illustrate the type of "wild card" project that could be possible in the Study Area in the future, if users are identified.

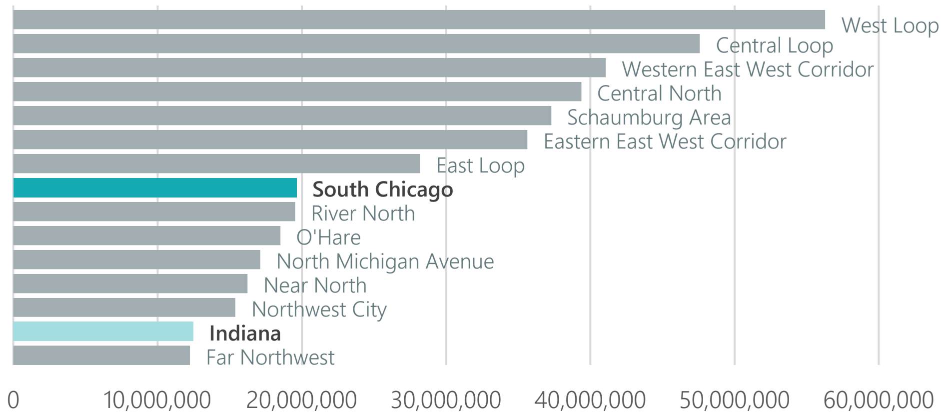
Figure 19. Recent Office Development (2009-Present)



Source: CoStar, Esri, SB Friedman, US Census

To evaluate the performance of submarkets that intersect the Study Area, relative to the region, SB Friedman identified regional submarkets with at least 15 million SF of office development. As of 2019, 15 submarkets in the region had at least 12 million SF of office development. Two of the submarkets that intersect the Study Area (South Chicago and Indiana) fall within this subset of comparable submarkets. They rank 8th and 14th for total existing office square footage, respectively (as presented in **Figure 20**).

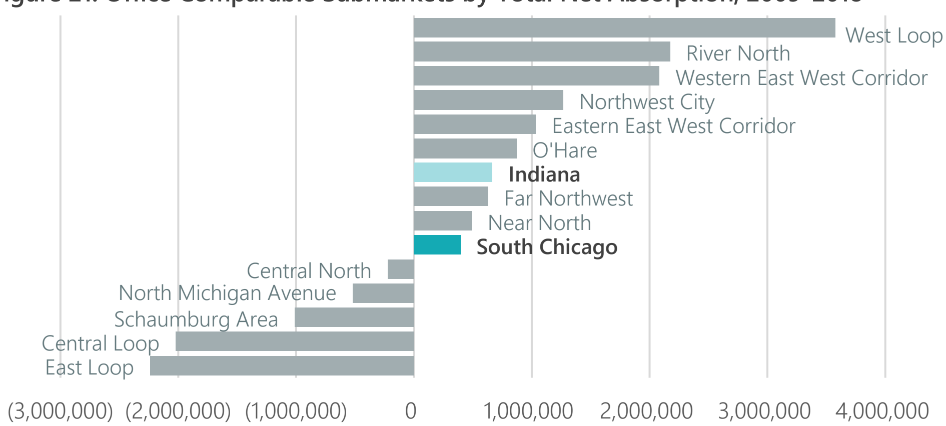
Figure 20. Office Comparable Submarkets by Total Existing Square Footage (YTD 2019) [1]



[1] Only those submarkets with more than 12 million SF of office development as of April 2019 are shown
Source: CoStar, SB Friedman

Both the South Chicago and Indiana submarkets experienced positive net absorption between 2009 and 2018, albeit less than other submarkets. This reflects some historical demand for office development in the Study Area. However, given the demand for office development in submarkets in Downtown Chicago (West Loop, River North, Central Loop and East Loop) and northwest Cook County (Northwest City, O'Hare, Schaumburg), it may be challenging for the Study Area to capture significant development demand in the future.

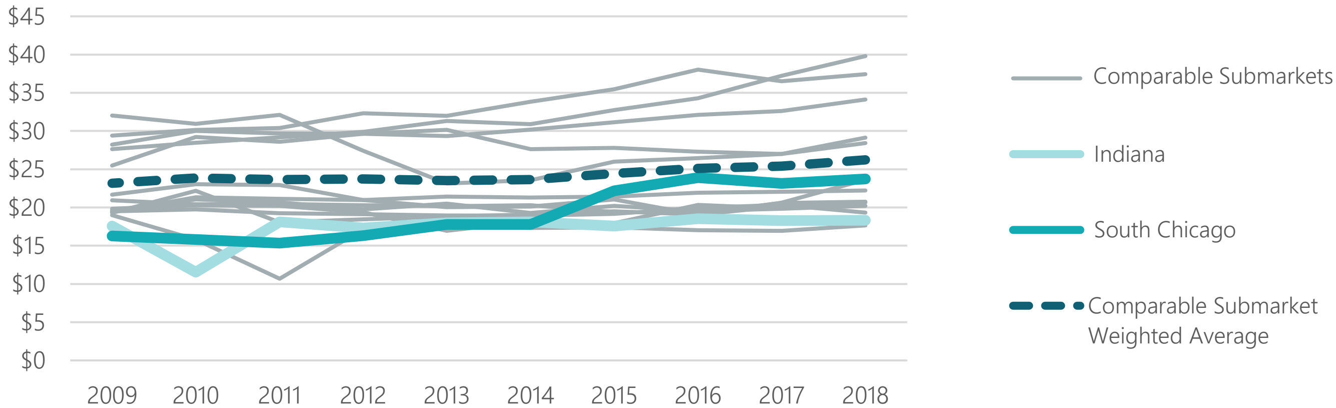
Figure 21. Office Comparable Submarkets by Total Net Absorption, 2009-2018



[1] Only those submarkets with more than 12 million SF of office development as of April 2019 are shown
Source: CoStar, SB Friedman

As of 2018, the median and weighted average office gross rents for the 15 comparable submarkets were approximately \$22/SF and \$26/SF, respectively. The highest rents, which range from approximately \$35-40/SF as of 2018, were in Downtown Chicago. In comparison, office gross rents for the Indiana and South Chicago submarkets were approximately \$18/SF and \$24/SF as of 2018. Therefore, rents in the submarket may be competitive to "wild card" users who cannot afford higher rents elsewhere.

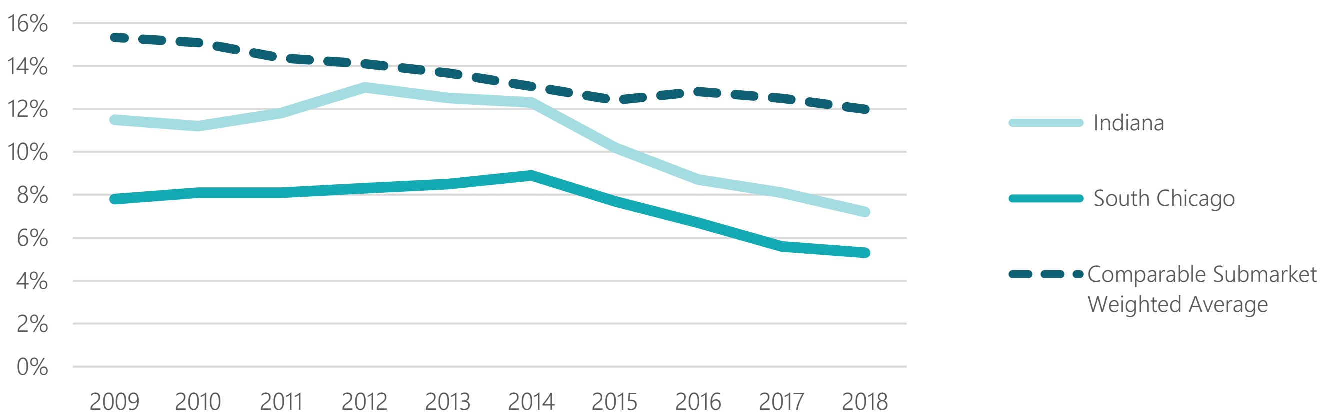
Figure 22. Comparable Submarket Office Gross Rents, 2009-2018



Source: CoStar, SB Friedman

The median and weighted average office vacancy rates for the 15 comparable submarkets were 11.2% and 12.0% as of 2018, respectively. At the same time, vacancy rates in the Indiana and South Chicago were 7.2% and 5.3%, respectively. As presented in **Figure 23**, vacancy in the submarkets that intersect the Study Area have steadily declined since 2014. Similar to industrial/flex real estate markets, lower than average vacancy rates typically reflect tighter markets and may indicate demand for continued development. However, combined with limited projected office employment growth and the Study Area's location outside of core office markets, it appears demand for future development in these submarkets may be limited.

Figure 23. Comparable Submarket Office Vacancy, 2009-2018



Source: CoStar, SB Friedman

CONCLUSIONS

Combined with employment forecasts for the Study Area, the existing industrial/flex and office real estate market analyses demonstrate there may be market potential for future industrial/flex and, to a limited extent, office development. Therefore, SBA-guaranteed investments in qualifying development or expansion projects could prove beneficial. While the market potential of specific projects appears to vary based on project characteristics and location, demand appears to exist for Wholesale Trade and/or Transportation and Warehousing projects within existing industrial/flex clusters and "wild card" office projects with notable employment impacts.

Existing Industrial and Office Sector Businesses

In addition to the identified real estate opportunities above, the SBA 504 Loan Program could be leveraged by existing businesses within the Study Area that are looking to expand or modernize. SB Friedman analyzed InfoGroup business data, available through Esri, to quantify the number of businesses in the industrial and office sectors that could potentially qualify for financing through the SBA 504 Loan Program. The analysis focused only on the requirement that businesses have an average annual net revenue of no more than $5.0 million, as data is not available regarding business assets.

The net revenue of existing businesses is also difficult to estimate as data sources do not track businesses operating expenses. SB Friedman therefore identified businesses within the Study Area and in industrial and office sectors with $5 million or less in annual sales. This results in a conservative estimate, as some businesses with sales revenues above $5 million could also potentially qualify for financing after sales revenues are reduced by operating expenses. Still, the analysis indicates that approximately 4,200 industrial sector and 6,200 office sector businesses could potentially meet the revenue requirements of the SBA 504 Loan Program. These businesses will ultimately have to meet the other underwriting requirements of the program to qualify. However, potentially qualifying businesses account for 74% of total industrial businesses and 95% of total office businesses, indicating that Study Area businesses align well with the objectives of the SBA 504 Loan Program.

Financing-Related Challenges and Opportunities

To fully capitalize on the identified real estate opportunities, businesses within the Study Area will need to benefit from improved access to capital and a reverse in historical trends of disinvestment. Stakeholder interviews and supporting research indicate that there are several incongruities in small business lending and access to capital, particularly in majority-minority and low-income communities, both nationally and in the Chicago region.

Research indicates that minority-owned businesses and businesses in lower-income communities generally apply for traditional financing less than their nonminority and higher-income counterparts due to fears of being denied. They also receive a disproportionately low share of venture capital and angel investments. When they do receive financing, minority-owned businesses and businesses in lower-income communities typically pay higher interest rates and receive smaller loans than nonminority-owned businesses and businesses in higher-income communities, even if they have similar credit scores, similar levels of performance or are in the same industries (Federal Reserve Bank 2017, JP Morgan Chase 2018, Woodstock Institute 2017). As a result, these businesses typically operate with less capital, during both start-up and expansion phases, and are therefore less able to take advantage of opportunities when they arise (JP Morgan Chase 2018, Woodstock Institute 2017).

Furthermore, while disinvestment from traditional lenders certainly predates the financial crisis, traditional lenders have become less risk averse in its wake. Traditional banks now make fewer loans to small businesses, particularly smaller loans that are less profitable, and have rather rigid underwriting criteria when they do. Key informants interviewed for this study reported that potential borrowers are often challenged by their credit scores, which would ideally exceed 700, and their ability to satisfy collateral requirements that range from accounts payable equal to approximately 75% of the loan value to real estate worth approximately 80% of the loan.

Of particular relevance to the SBA 504 Loan Program, a recent study by the Urban Institute (2019) found that commercial and industrial investment in Chicago between 2011 and 2017 was most heavily concentrated in construction and rehab financing activities. However, commercial construction and rehab activity in majority-white neighborhoods was twice the level of the activity in majority-Black neighborhoods. Likewise, although industrial real estate construction and rehab activity in the City of Chicago more than doubled over the period of study, majority-white neighborhoods received twice the level of construction and rehab investment activity relative to majority-Black and majority-Latino neighborhoods investment activity. These findings were corroborated and expanded upon by an interviewee who explained the largest financing gap for small businesses in the Study Area, even established small businesses, is currently constructing financing.

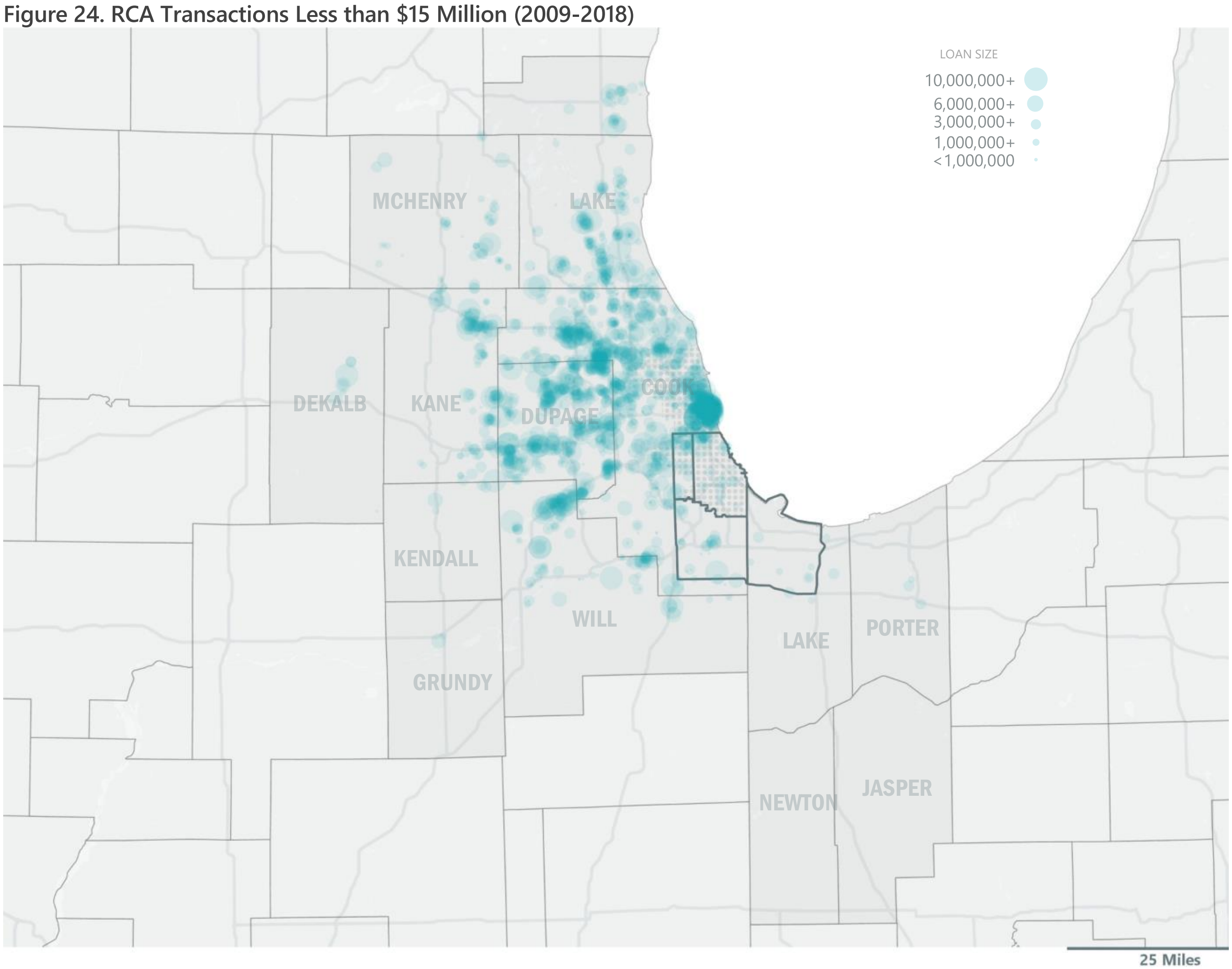
FINANCING TRENDS

To demonstrate financing challenges in the Study Area, SB Friedman evaluated the locational patterns of recent financing transactions available through Real Capital Analytics (RCA) and recent SBA 504 Loan transactions available through the SBA. While RCA does not track all transactions, the dataset includes a good cross-section of lending activity.

RCA data was available for the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area (the "Chicago MSA") and SB Friedman accordingly limited SBA data to the same region. The datasets were also limited to transactions that occurred during the 10-year period from 2009 to 2018. To allow for accurate comparison between the SBA 504 Loan Program and traditional financing markets, SB Friedman reviewed overall RCA lending trends as well as trends for those transactions below $15 million.

Transaction data from RCA indicates that nearly 3,000 financing transactions amounting to over $40 billion of financing activity occurred between 2009 and 2018 in the Chicago region. Approximately 2,500 transactions (86% of the total transactions) had values of $15 million or less (and are therefore comparable to SBA 504 loans). This subset amounts to approximately $8.8 billion, or 21% of the financing activity observed over the study period. Concurrently, SBA data indicates that nearly 3,100 SBA 504 transactions occurred between 2009 and 2018, totalling over $4.9 billion. Due to parameters of the SBA 504 Loan Program, wherein CDC lending typically accounts for 40% of the capital stack and is capped at $5.0 million ($5.5 million for manufacturing projects), very few transactions exceed $15 million. Regional lending patterns for the RCA and SBA 504 data are presented in **Figures 24** and **25**.

Figure 24. RCA Transactions Less than $15 Million (2009-2018)



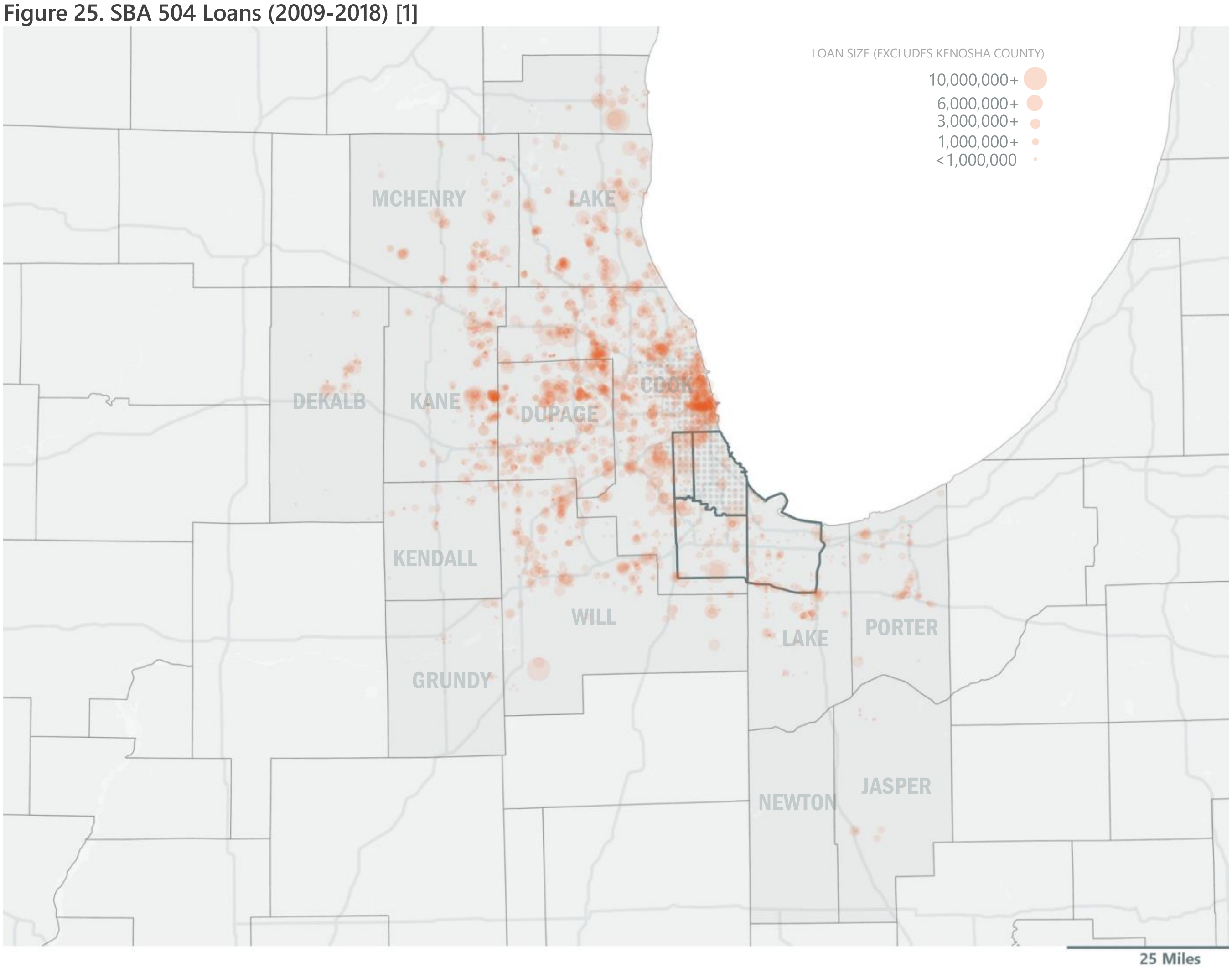
Source: Esri, Real Capital Analytics, SB Friedman, US Census

While there is no shortage of investment across the region, SB Friedman's analysis demonstrates that recent financing transactions appear to be disproportionately distributed. The Study Area accounts for approximately 18% of the regional population and approximately 11% of the Chicago and Gary Metropolitan Division regional employment, but captured only 2% of the total regional RCA and SBA financing activity between 2009 and 2018. Specifically, RCA data shows 120 transactions occurred in the Study Area over the study period, which amounted to approximately $661 million in investment. These transactions accounted for only 4% of the total number of RCA transactions observed across the region and 2% of the total RCA investment. Five of the RCA transactions observed in the Study Area exceeded

$15 million. These five transactions totalled $303 million and accounted for nearly half (46%) of the total RCA investment observed in the Study Area between 2009 and 2018. The remaining 115 transactions, which were all individually less than $15 million, accounted for just 4% of all RCA transactions below the $15 million threshold across the region.

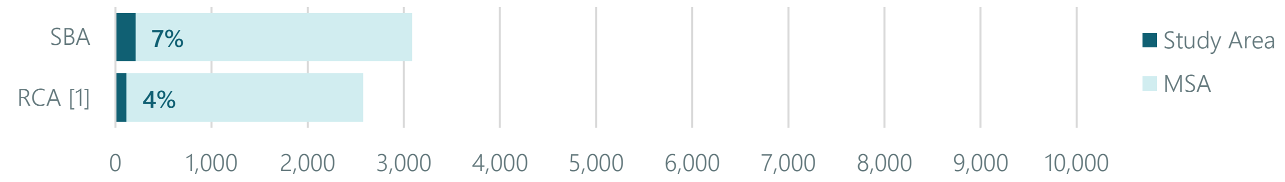
Likewise, 209 SBA 504 transactions occurred in the Study Area between 2009 and 2018. Including both the SBA-certified loan from CDCs and financing from third-party lenders, these transactions amounted to approximately $336 million of investment in the Study Area. However, these transactions represent only approximately 7% of the total SBA 504 transactions and SBA 504 Loan investment that occurred across the Chicago MSA over the study period.

Figure 25. SBA 504 Loans (2009-2018) [1]



[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri, SB Friedman, US Census, US Small Business Administration

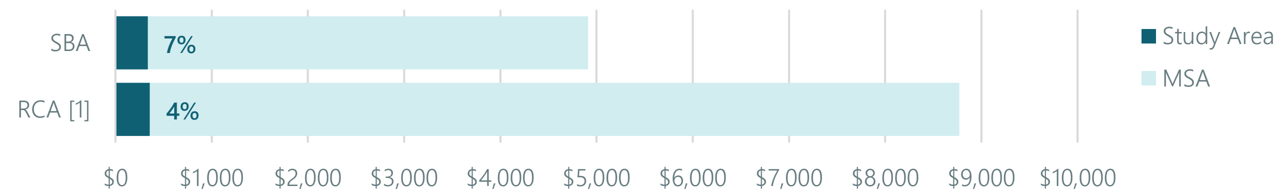
Figure 26: Number of RCA and SBA 504 Loans (2009-2018)



[1] Excludes RCA transactions that exceeded $15 million

Source: Esri, RCA, SBA, SB Friedman

Figure 27: RCA and SBA 504 Financing Activity (2009-2018, millions of dollars)



[1] Excludes RCA transactions that exceeded $15 million
Source: Esri Business Analyst, Real Capital Analytics, U.S. Small Business Administration, SB Friedman

SB Friedman's analysis confirms the Study Area has received disproportionate levels of investment relative to the region. To this point, stakeholder interviews and a review of research on small business lending trends indicate access to capital is a major challenge for minority-owned businesses and businesses located in lower-income areas. Specifically, demographics in the Study Area are such that businesses are not well positioned to leverage employment trends and development opportunities. Limited access to traditional forms of investment, such as bank financing, is driven by a variety of factors including limited availability of on-hand equity and/or collateral, disparate investment from private equity, and changes in the banking industry following the financial crisis and the recession.

SBA LENDING TRENDS ELSEWHERE

The SBA 504 Program can help mitigate the disproportionate lending patterns discussed above. To further understand utilization of the SBA 504 Program in minority areas, SB Friedman evaluated lending activity in Chicago and three comparable metropolitan cities with large minority populations (Atlanta, Philadelphia and Washington, D.C.). Across the comparables cities, SB Friedman found that 11% of SBA 504 investment activity occurred in minority census tracts (defined as tracts where 80% or more of the population is not white). Over the same time frame, only 6% of Chicago SBA 504 investments occurred in minority census tracts. Total SBA investment within Chicago and the comparable cities are presented in **Figure 28**, and in **Appendix B**. The disproportionate share of investment activity within minority census tracts in Chicago may be indicative of the need for additional SBA-certified CDCs within the Study Area.

Figure 28. SBA Investment in Chicago and Comparable Cities, 2009-2018 [1]

	Within City Limits	Within Minority Tracts	Percent
Chicago	**$991,124,450**	**$60,585,868**	**6%**
Atlanta	$157,668,549	$25,387,322	16%
Philadelphia	$81,749,447	$7,074,872	9%
Washington, DC	$210,915,748	$19,186,208	9%
Comparable Cities Combined	$450,333,744	$51,648,402	11%

[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri Business Analyst, SBA, SB Friedman

CONCLUSIONS

The limited lending activity observed in the Study Area, from both existing SBA-certified CDCs active in the region and traditional financing actors, reflects the patterns and challenges accessing capital documented by existing research on small business lending and discussed by key informants interviewed for this analysis. Furthermore, there has been a disproportionate share of SBA 504 Program investment activity (as a percent of total City-wide investment) within minority census tracts in Chicago, relative to comparable cities. Both data points indicate a need for additional SBA-certified CDCs within the Study Area.

High-Level Financial Feasibility Analysis

The SBA 504 Loan Program appears to be well suited to assist in pursuing identified real estate opportunities and addressing financing-related challenges in the Study Area. Specifically, given the smaller equity requirements placed on small business borrowers by the 504 Loan Program and the uses allowed by the program, for which financing might otherwise be difficult to obtain, it appears it would be possible to target this type of investment toward market-feasible and employment-generating projects within the Study Area.

SB Friedman conducted a high-level financial feasibility analysis for a prototypical industrial development project to assess the impact of more favorable financing terms (equivalent to 504 financing) on a potential small business borrower. Financial feasibility was evaluated from a real estate perspective, rather than accounting for business-side revenues and expenses, which vary significantly by business. Stabilized Cash-on-Cash Return was the metric used to evaluate financial feasibility and is defined as the annual cash return to equity investors once the project reaches stabilization and is calculated by dividing net cash flow (after debt service) in the first year of stabilized operations by the total initial equity investment.

SB Friedman estimates that the prototypical project would achieve a stabilized cash-on-return of approximately 8% in a traditional financing scenario, assuming that the owner/developer has sufficient access to capital. Typically, a project of this type would require a cash-on-cash return of 11-16%, based on industry data. Due to the longer term, lower interest rate and reduced up-front equity requirements provided through the SBA 504 Loan Program, SB Friedman estimates the prototypical project would generate a stabilized cash-on-cash return of 19%, indicating that the project would achieve financial feasibility through the more favorable loan terms.

Figure 29: Prototypical Industrial Financial Feasibility Analysis

Financing Assumptions	Without SBA 504	With SBA 504
Conventional Debt		
Loan-to-Cost	75%	50%
Interest Rate	6.0%	6.0%
Term	20 yrs	25 yrs
SBA 504 Debt		
Loan-to-Cost		40%
Interest Rate		4.4%
Term		25 yrs
Equity		
Equity Contribution	25%	10%
Returns Analysis	**Without SBA 504**	**With SBA 504**
Total Development Costs ($/SF) [1]	$70.00	$70.00
Rent Revenues (NNN) [2]	$5.90	$5.90
Conventional Debt Service	($4.50)	($2.70)
SBA 504 Debt Service	n/a	($1.85)
Equity Distribution	**$1.40**	**$1.35**
Equity Contribution	$17.50	$7.00
Annual Cash on Cash	**8.0%**	**19.3%**

[1] Based on a prototypical industrial development project in the Study Area
[2] Based on median industrial triple net rents in comparable submarkets with at least 30 million SF of industrial square footage as of 2018
Source: CoStar, National Association of Development Companies, RealtyRates, SB Friedman, US Small Business Administration

Ability to Leverage Other Programs

Programs such as federal Opportunity Zones (OZs), the City of Chicago's Neighborhood Opportunity Fund (NOF), Cook County's Industrial Growth Zones Program (IGZs) and tax increment financing (TIF) are also designed to encourage investment in challenged and historically overlooked areas. The geographical distributions of these programs within the Study Area are presented in **Appendix C**.

Figure 30. Complementary Community Investment Programs in the Study Area

Program	Program Type	Description	Opportunities Available to Leverage
Industrial Growth Zones (IGZs) Note: The IGZ program was announced in July 2016 as a three-year pilot program. The future of the program is currently not known.	Local – City of Chicago & Cook County	By partnering with local workforce agencies, industrial developers and/or businesses interested in locating in an IGZ may become eligible for: • Financial assistance for environmental assessments and remediation; • Free site marketing to developers and businesses; • Expedited permitting, licensing, and inspections; and • Assistance with hiring and training.	Financial assistance (for environmental costs, site marketing costs, etc.) offered through the IGZ program can be used to fill or minimize financing gaps. Expedited permitting, licensing, and inspections, and assistance with finding employees, can lower total development costs.
Neighborhood Opportunity Fund (NOF)	Local – City of Chicago	The NOF is funded by Developer fees paid for entitlements in and around downtown Chicago. Eligible business and property owners in the Qualified Investment Areas (QIAs) may apply for grants to pay for commercial real estate development or rehabilitation and/or businesses expansion. • New construction projects are eligible to receive up to 30% of total project costs; • Rehabilitation projects may receive up to 50% of the total project costs; and • An additional 15% of project costs for new construction and rehabilitation projects may be eligible to be funded if the business/property owner lives within a QIA. Eligible costs include but are not limited to: • Site costs, such as environmental remediation and demolition; • Hard costs, interior buildout and HVAC, plumbing, and electrical systems; and • Soft costs, including architectural and engineering fees.	NOF grants and SBA 504 loans can be used simultaneously to fund business development costs.
Tax Increment Financing (TIF)	Local & State	Under TIF, property taxes resulting from increased value due to new development, rehabilitation or improvement, property appreciation, equalization or rate changes are all allocated to a special fund. Other jurisdictions continue to receive the property taxes generated by the base value of properties in the district. TIF funds are subsequently available to support redevelopment and economic development within TIF districts. Eligible costs are dictated by City policy and state law.	TIF financing can be used to fill or minimize financing gaps. • TIF allocations are often tied to the incremental property tax revenues that are projected for the project in question. • Chicago's Business Improvement Fund (SBIF) Grant program uses TIF revenues to fund grants for small business facilities (industrial or commercial) located in eligible TIF districts.

New Market Tax Credits (NMTC)	Federal	The NMTC program is primarily used to fund commercial and industrial developments, community facilities, operating businesses, and mixed-use projects located in qualifying Census tracts. To benefit from NMTCs, a project must obtain financing from an organization certified as a Community Development Entity (CDE) by the Community Development Financial Institutions (CDFI) Fund. The CDFI Fund, a division of the U.S. Department of Treasury, administers the NMTC program. It allocates tax credits to CDEs, which in turn use the tax credits to provide subsidized financing to projects.	NMTC and the SBA 504 Program are not often used together. However, NMTC can be used in unique situations to improve the terms of the traditional debt financing component of an SBA 504 transaction. This structure is the most successful with the SBA 504 CDC and the NMTC CDE are the same entity (such as LISC's Job Creation and Community Revitalization Fund). It is also possible to break up a project and finance separate components with NMTC and SBA 504 financing. In this manner, NMTCs can be used to fill or minimize financing gaps and both programs can be used to fund differing eligible project costs.
Opportunity Zones (OZs)	Federal	The OZs incentive encourages long-term capital investment in qualifying OZs by incentivizing investors to re-invest unrealized capital gains. Investors who hold their investment for 10 years or more experience the greatest benefits.	OZ equity investments can be used to fill or minimize financing gaps.

Source: City of Chicago, Cook County, Economic Innovation Group, SB Friedman, SomerCor

In addition to supplementing the activities of existing SBA-certified CDCs who are active in the Study Area, Far South CDC can capitalize on these and other complementary programs to provide improved access to capital and make successful and impactful community investments. For example, the matching requirements of the NOF have been identified as a central challenge for businesses and entrepreneurs looking to secure grant funding. With the more favorable financing terms provided through the 504 Loan Program, businesses could improve cash flows and be better suited to put forward matching funds.

Conclusions

The Study Area includes the greatest concentration of majority-minority and lower-income communities in the Chicago region. As a result, the Study Area has not experienced the same level of reinvestment and redevelopment activities as other areas. This has led to population loss, median household incomes that are a fraction of the regional average, and low educational attainment. Demographic challenges in the area are exacerbated by a high unemployment rate and a high employment loss in historically important sectors, including manufacturing.

However, there are market indicators that suggest the Study Area could be positioned for growth due to its location and access to transportation networks. Wholesale Trade and Transportation and Warehousing are key opportunities, as demonstrated by the absorption of new industrial development, increases in rent, and projected growth in these employment sectors. Targeted investment in these sectors would likely have widespread benefits for the Study Area. Secondarily, investment in the Finance and Insurance and Professional, Scientific and Technical Services sectors may also prove beneficial given employment forecasts, although there appears to be less market potential for office development projects of this kind.

Approximately 4,200 industrial sector businesses and 6,200 office sector businesses in the Study Area have sales of $5 million or less. Should any of these businesses be looking to expand or modernize, it is possible that they could qualify for the SBA 504 Loan Program, provided other underwriting requirements are met. Potentially qualifying businesses account for 74% of total industrial businesses and 95% of total office businesses, indicating that Study Area businesses align well with the objectives of the SBA 504 Loan Program.

These market opportunities could be leveraged to assist in reversing negative demographic trends and socioeconomic conditions. However, access to capital is a challenge for businesses and entrepreneurs in the Study Area. Research demonstrates that traditional lending occurs at much higher rates elsewhere in the region. SBA 504 lending has also been limited in the Study Area and there has been a disproportionate share of SBA 504 Program investment activity (as a percent of total City-wide investment) within minority census tracts in Chicago, relative to comparable cities. There is consequently ample need for additional active lenders in the area, who could and would focus their investment efforts accordingly.

By partnering with the SBA on 504 loans, Far South CDC could assist businesses with the:

- Purchase of existing buildings;
- Purchase of land and land improvements;
- Construction of new facilities or modernizing, renovating or converting existing facilities;
- Purchase of long-term machinery; or
- Refinancing of debt in connection with an expansion of the business through new or renovated facilities or equipment.

In addition to providing financing, the SBA guarantee would allow Far South CDC to address larger challenges regarding access to capital. Through the 504 Loan Program, Far South CDC could reduce the amount of upfront equity required and provide more favorable financing terms. As a result, borrowers would see improved cash flows and better overall returns. To the extent that Far South CDC can also leverage alternate programs that were similarly designed to address demographic, real estate and financing-related challenges in the Study Area, they can have greater and more widespread impacts.

Appendix A

LIMITATIONS OF OUR ENGAGEMENT

Our deliverable is based on estimates, assumptions and other information developed from research of the market, knowledge of the industry and meetings during which we obtained certain information. The sources of information and basis of the estimates and assumptions are stated in the deliverable. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our deliverable and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the deliverable or to reflect events or conditions which occur subsequent to the date of the deliverable. These events or conditions include without limitation economic growth trends, governmental actions, additional competitive developments, interest rates and other market factors. However, we are available to discuss the necessity for revision in view of changes in economic or market factors.

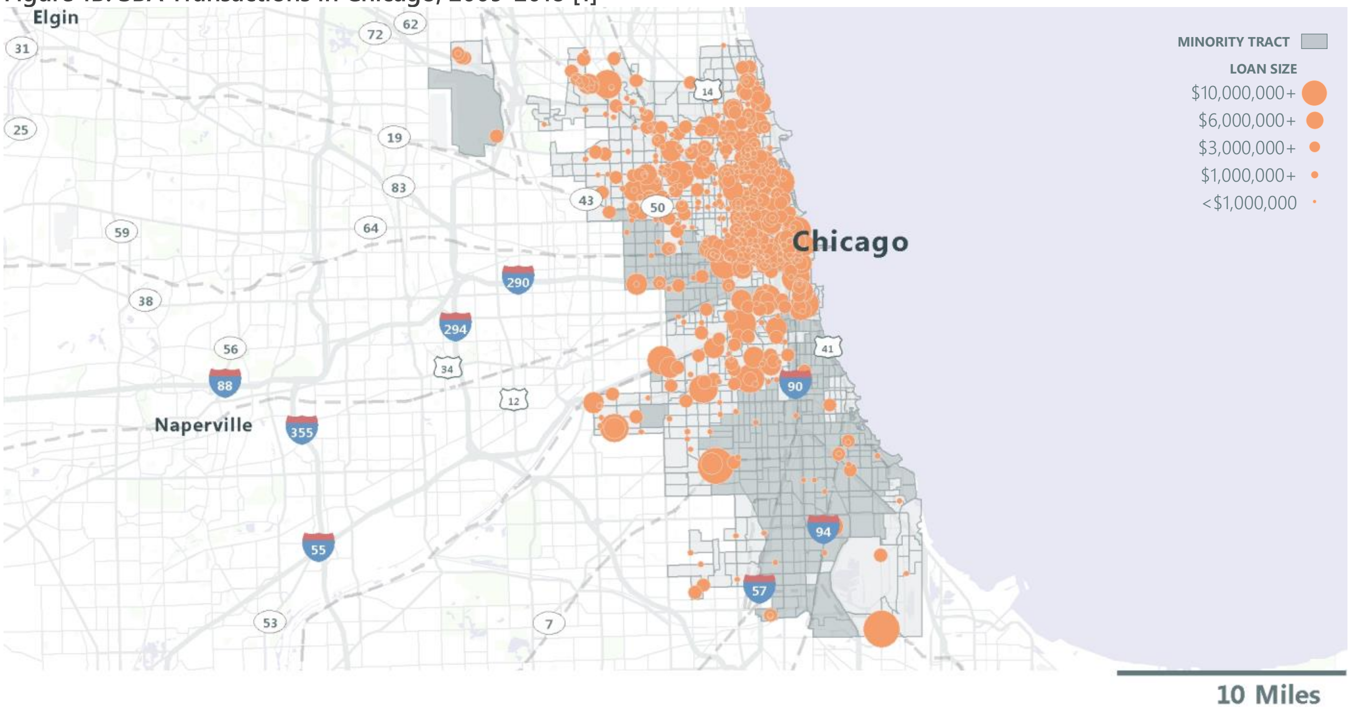
Our report is intended solely for your information. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan or other agreement or any document intended for use in obtaining funds from individual investors.

To obtain our permission to include this statement in a prospectus we must be permitted to review the offering materials including without limitation the identity and backgrounds of all principals, the description of the project, the market and financial projections utilized, and the text of the materials. We will be compensated at our current hourly rates for the time required to conduct such reviews and to provide our consent.

In no case does this permission include or imply the right to specifically cite the conclusions or recommendations of our deliverable in such a document.

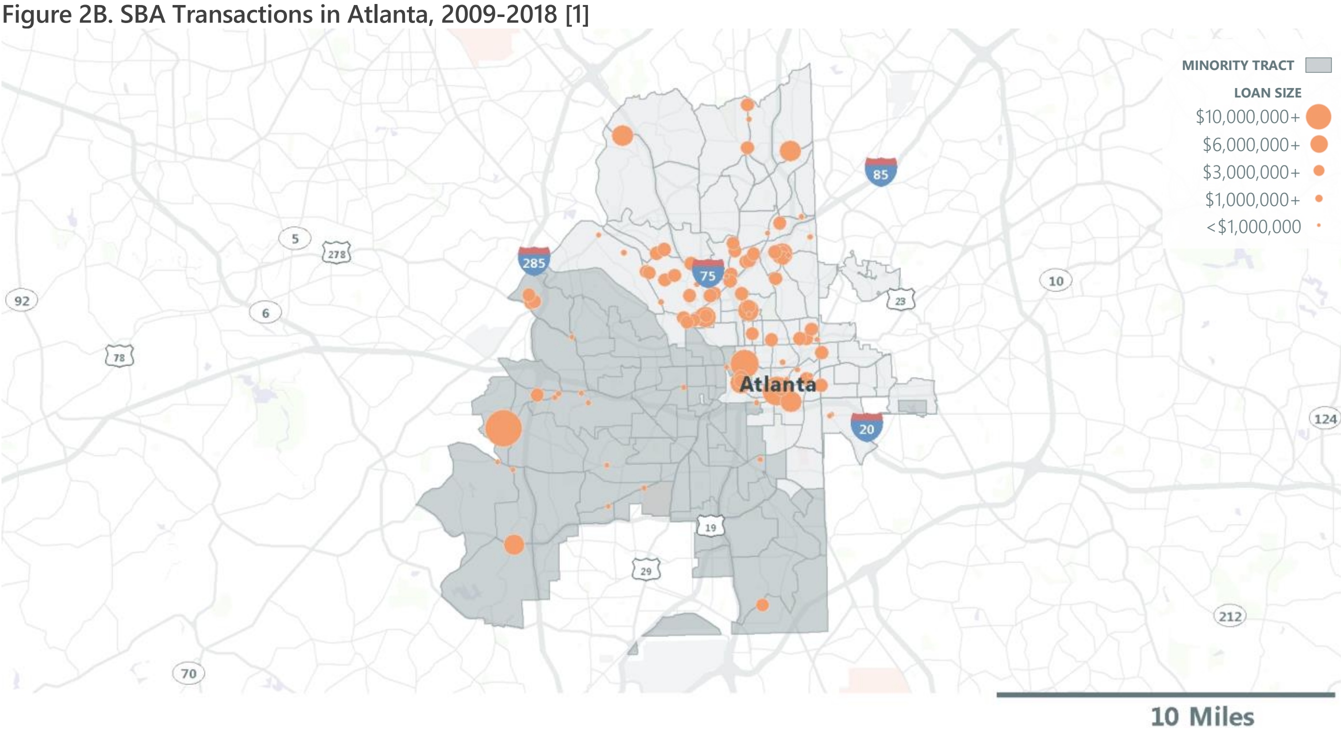
Appendix B

Figure 1B. SBA Transactions in Chicago, 2009-2018 [1]



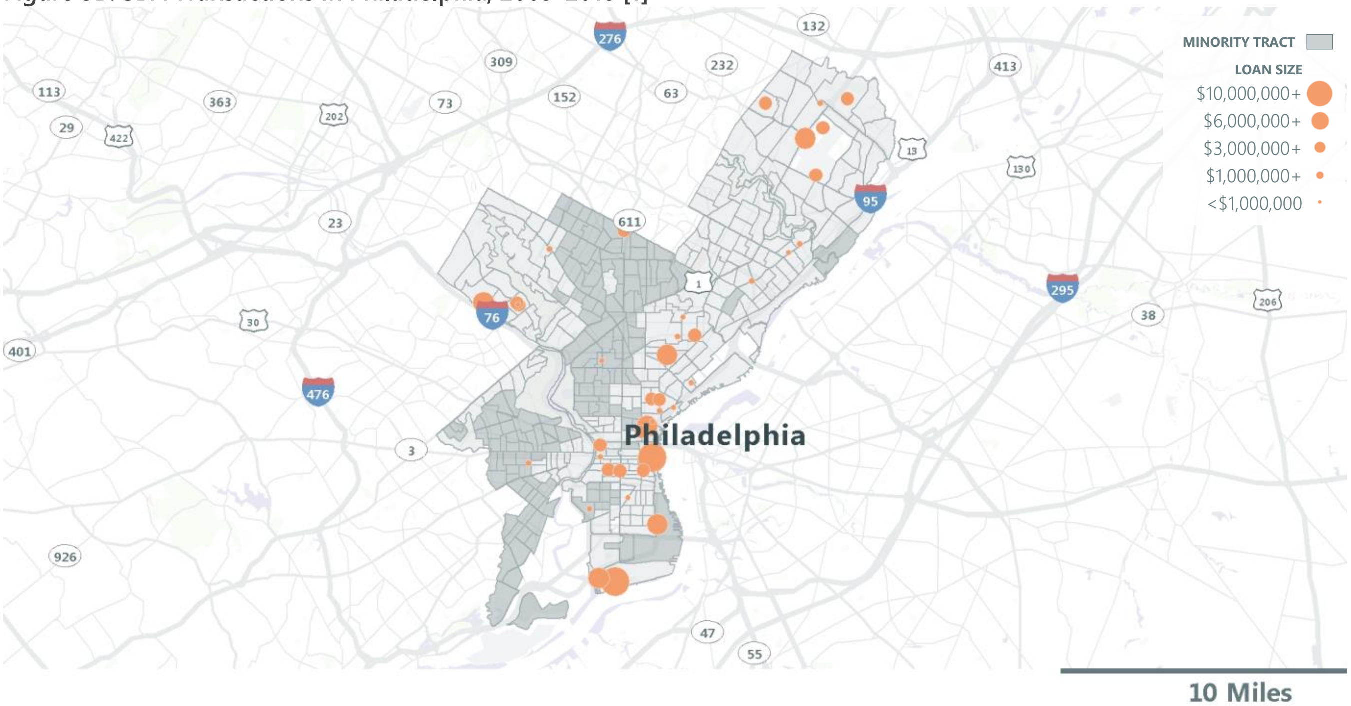
[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri Business Analyst, SBA, SB Friedman

Figure 2B. SBA Transactions in Atlanta, 2009-2018 [1]



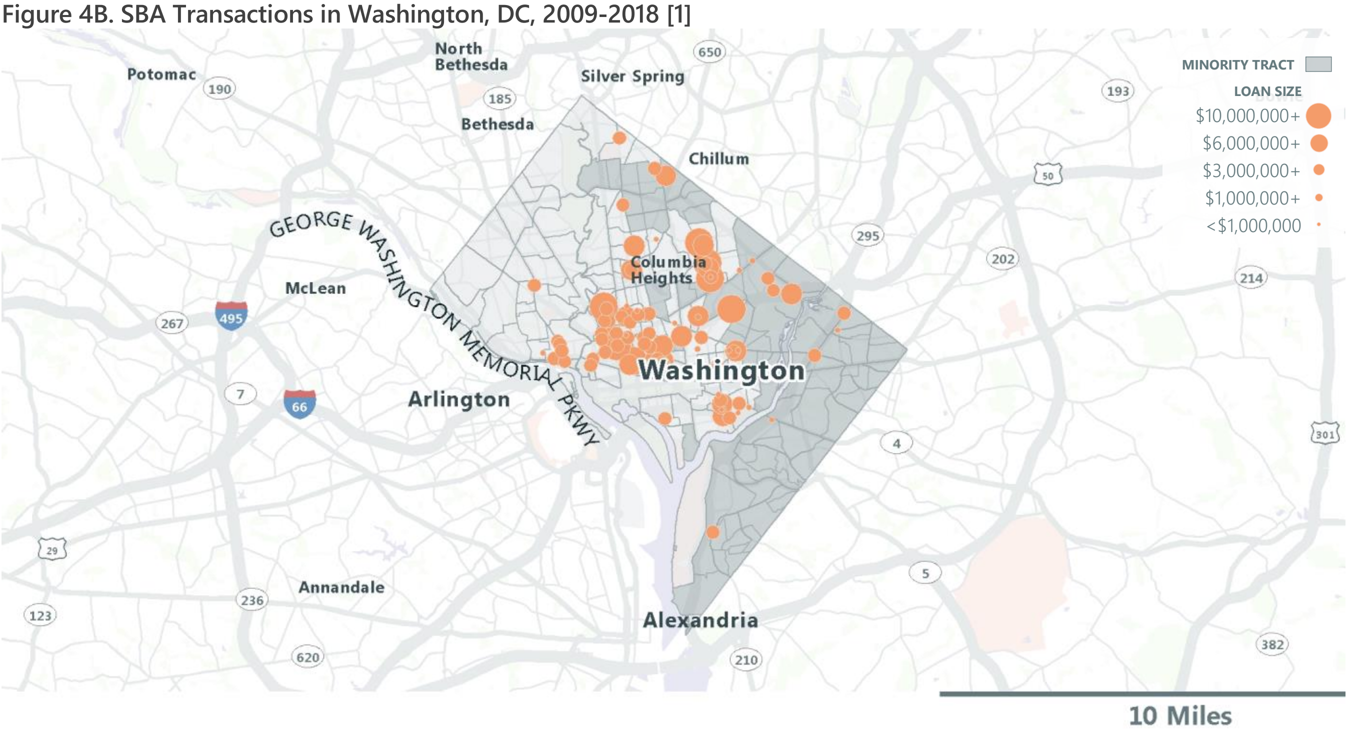
[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri Business Analyst, SBA, SB Friedman

Figure 3B. SBA Transactions in Philadelphia, 2009-2018 [1]



[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri Business Analyst, SBA, SB Friedman

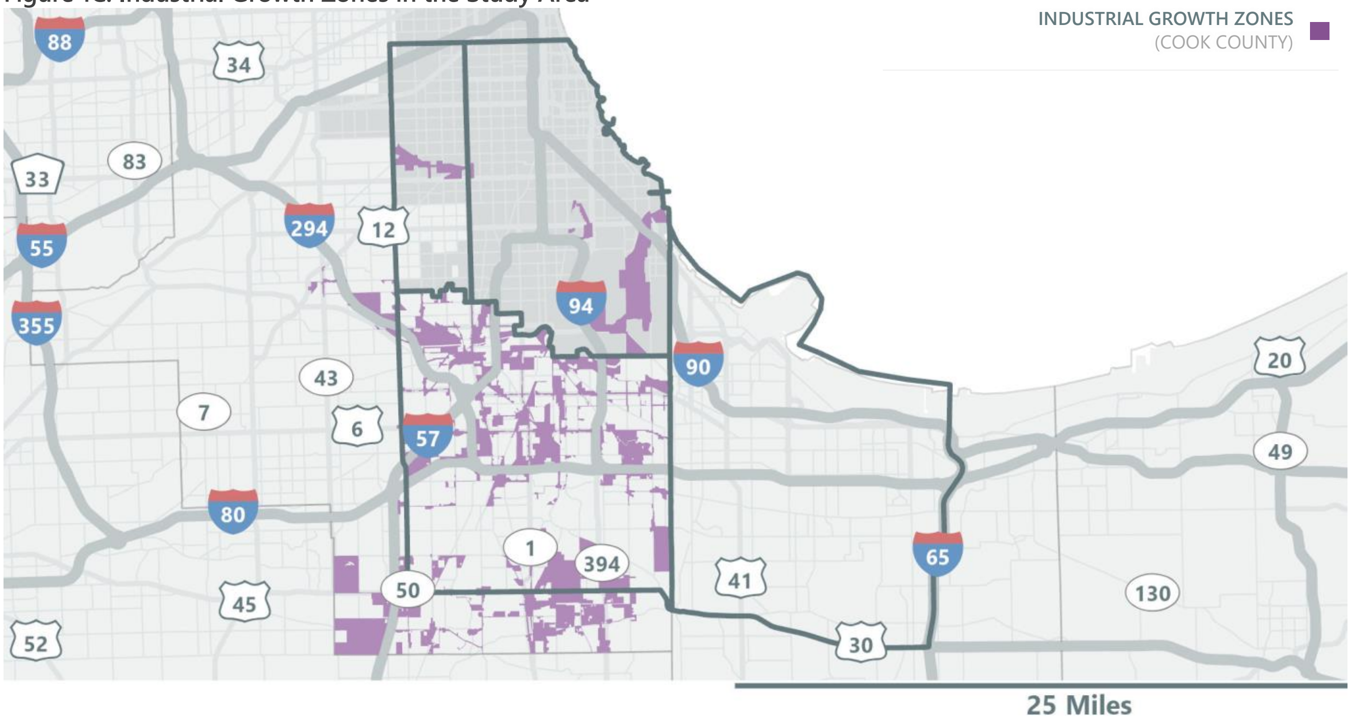
Figure 4B. SBA Transactions in Washington, DC, 2009-2018 [1]



[1] Loan size indicates total loan size, including CDC and traditional bank sources.
Source: Esri Business Analyst, SBA, SB Friedman

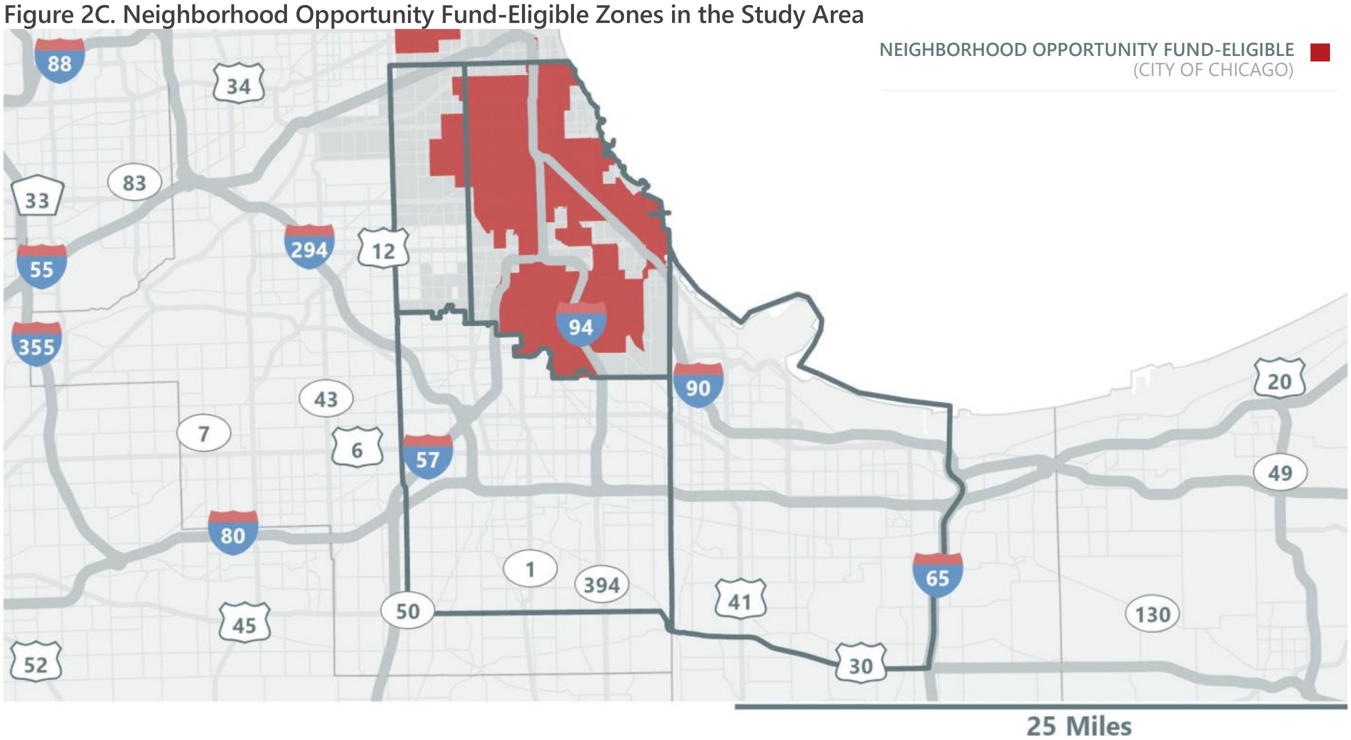
Appendix C

Figure 1C. Industrial Growth Zones in the Study Area



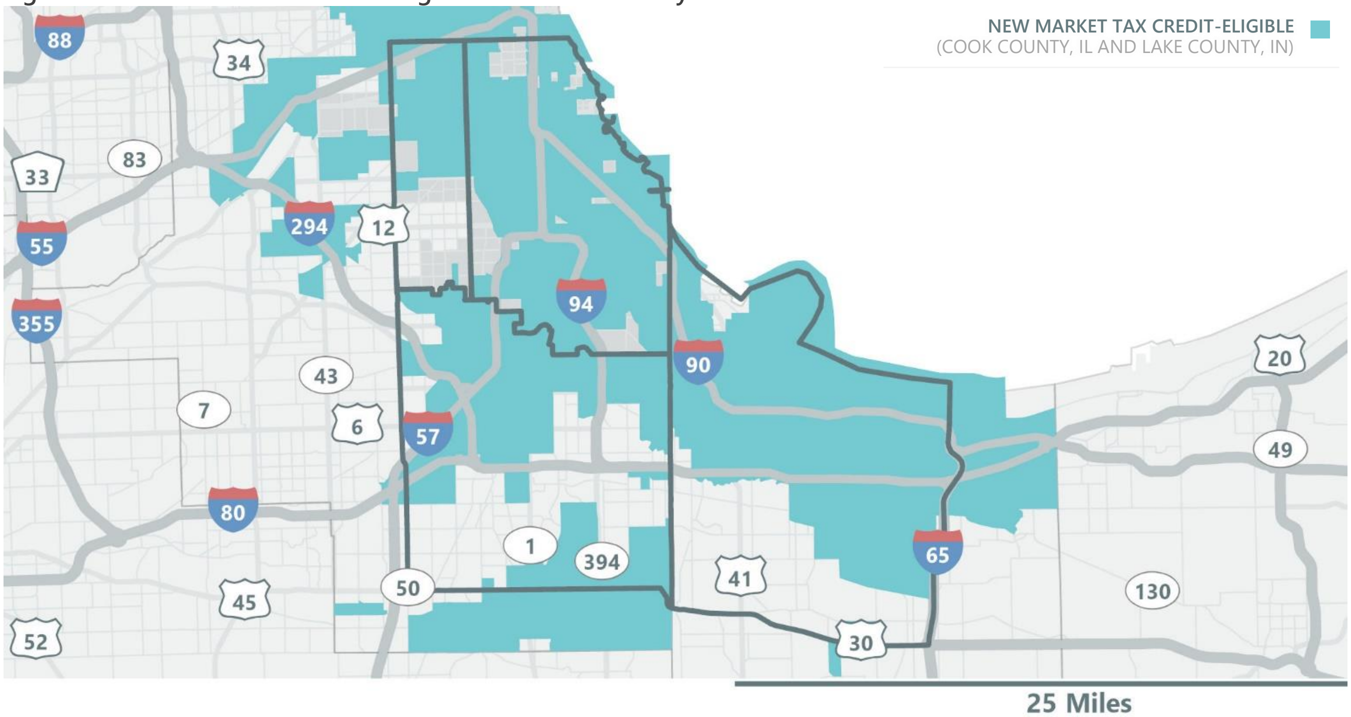
Source: City of Chicago, Cook County, Esri, Lake County, SB Friedman

Figure 2C. Neighborhood Opportunity Fund-Eligible Zones in the Study Area



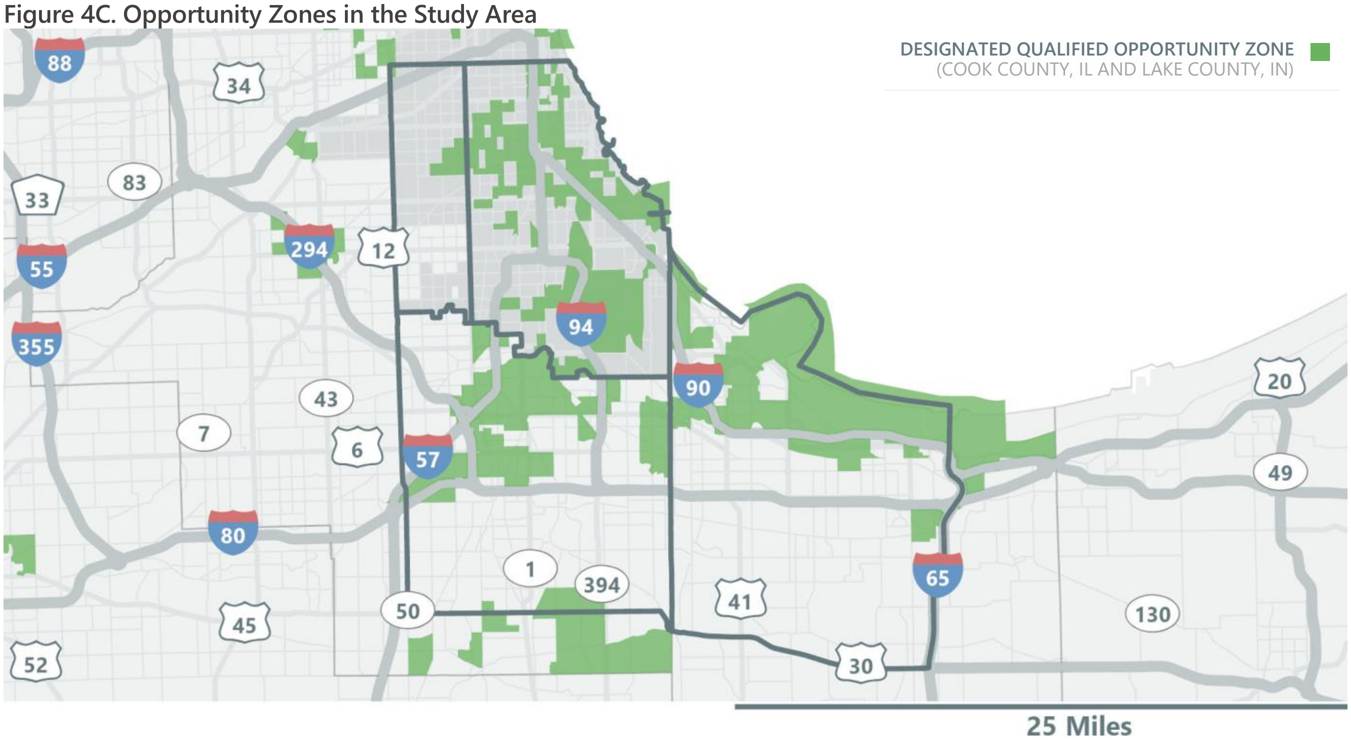
Source: City of Chicago, Cook County, Esri, Lake County, SB Friedman

Figure 3C. New Market Tax Credit-Eligible Tracts in the Study Area



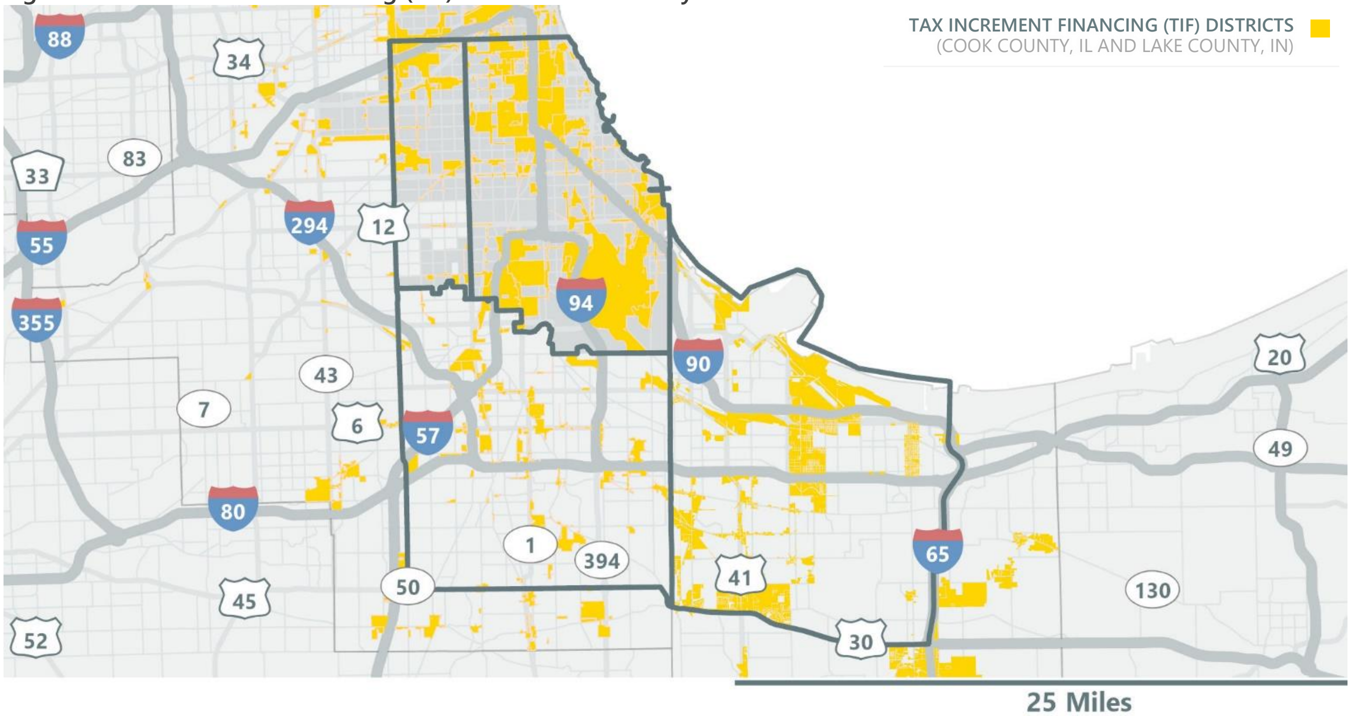
Source: City of Chicago, Cook County, Esri, Lake County, SB Friedman, Novogradac

Figure 4C. Opportunity Zones in the Study Area



Source: City of Chicago, Cook County, Esri, Lake County, SB Friedman, U.S. Treasury

Figure 5C. Tax Increment Financing (TIF) Districts in the Study Area



Source: City of Chicago, Cook County, Esri, Lake County, SB Friedman