LEFT LANE

GULF TOWER REDEVELOPMENT

A Presentation of Potential **Positive Impacts** to Pittsburgh Public Schools

Sept. 9, 2024

Fiscal Cliff: How Did We Get Here?

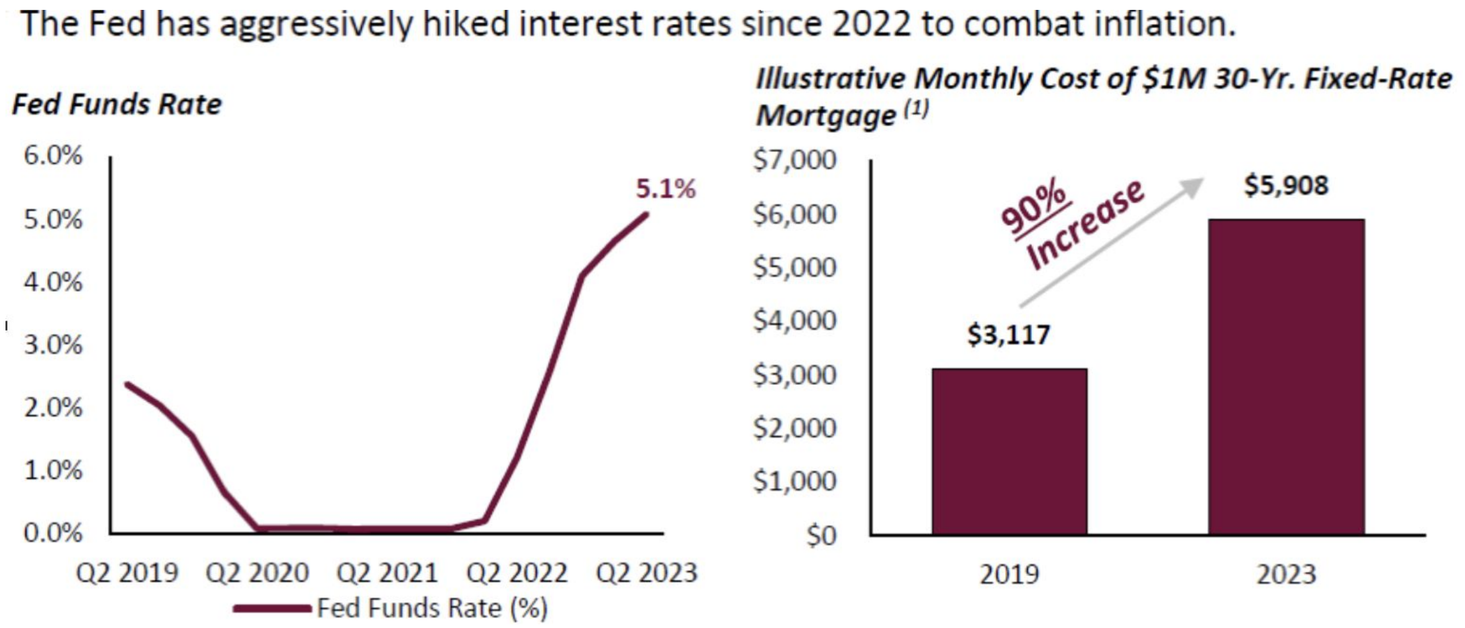
- Global office market implosion
  - Pandemic decimated need for office space worldwide
  - Work from home options allowed for migration of workforce; changed demand

- Downtown Pittsburgh result
  - No new office demand entering market
  - Existing office users reduced space needs by up to 60%
  - 5.5M square feet of office space available for lease today
  - 26 buildings approaching foreclosure or at risk of foreclosure
    - (15.3M SF - 63% of total CBD office stock)

According to CBRE: Lease expirations over next 5 years add a projected add'l 3-4M square feet of dark space to the market

Fiscal Cliff: Financial Headwinds

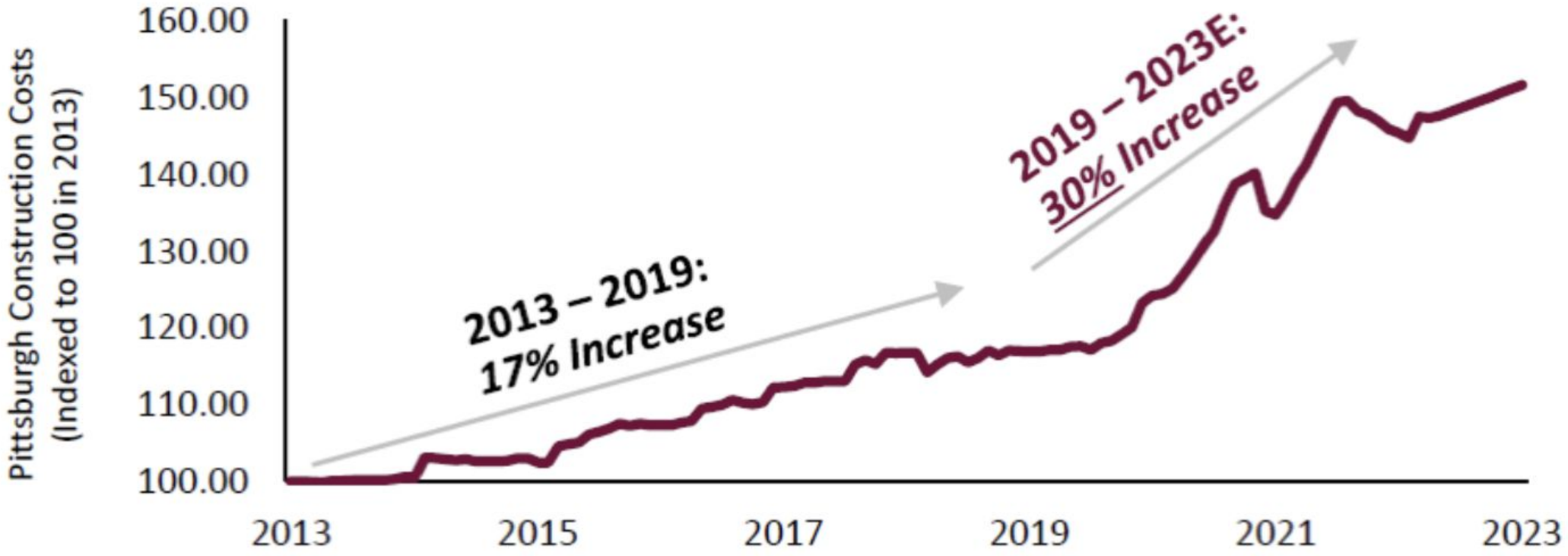
- Interest rate explosion
  - Prime rate: March 1, 2020: 3.25%
  - Prime rate: March 1, 2024: 8.50%
  - Net result: annual interest cost to borrow $1M has gone from: $32,500.00 on 3/1/2020 to $85,000.00 on 3/1/2024.



Fiscal Cliff: Financial Headwinds

Elevated Construction Costs

Pittsburgh construction costs have risen 30% in aggregate since 2019, exacerbating the challenges for new development posed by rising interest rates.

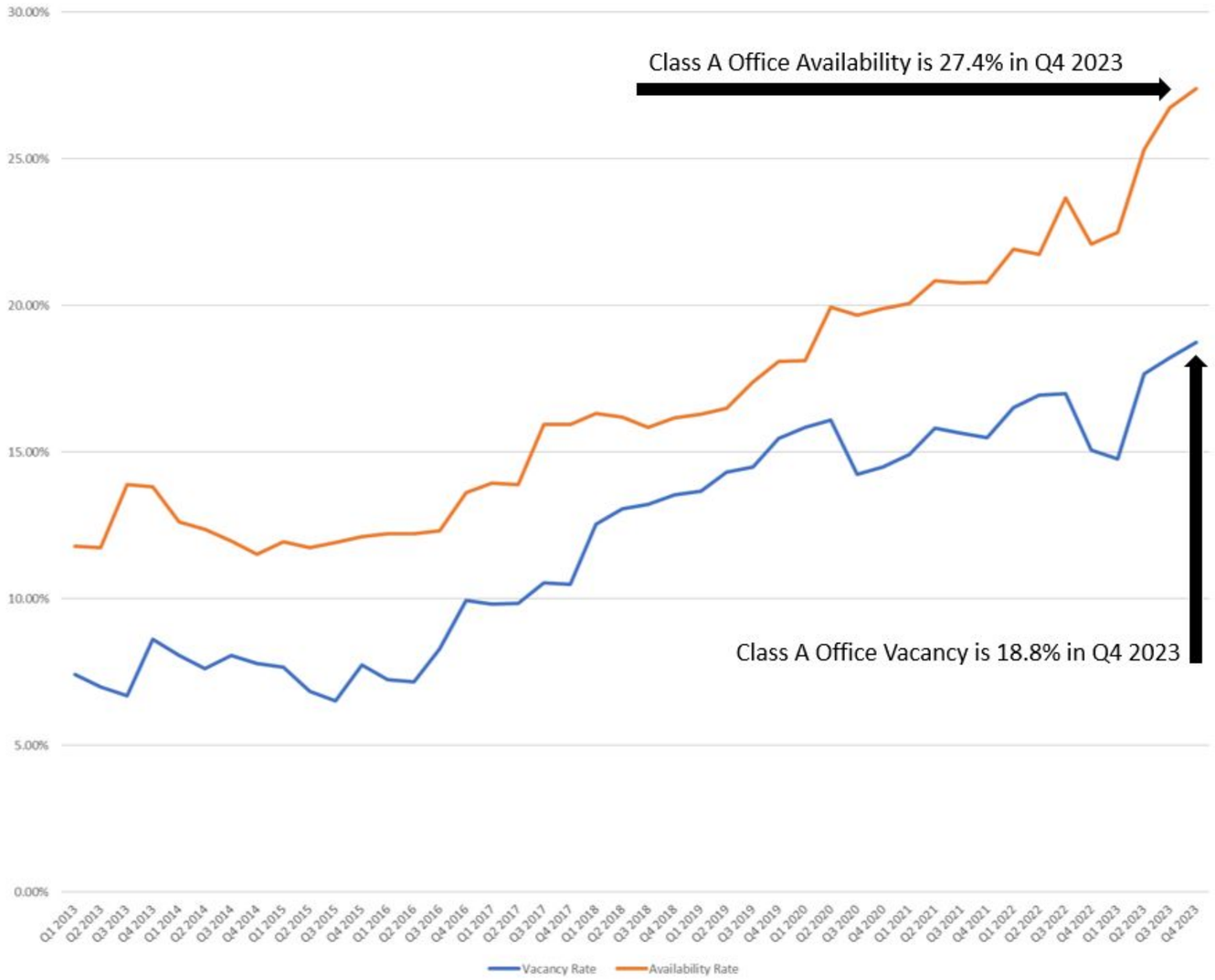


Fiscal Cliff - Downtown's Current State

- Downtown accounts for about 23% of city real estate revenue.
- Real estate tax revenue accounts for about 20% of the city's operating budget ($152 million in 2025).
- About 66% of Downtown is commercial office; 5th highest percentage of office as overall proportion nationally.
- Current office vacancy is about 27% when you factor in subleases; one of the highest office vacancy rates in the nation.

However, with up to an additional 3-4 million square feet of dark space becoming available in the next 5 years, the projected vacancy could increase to 46% by 2028.

Fiscal Cliff - Downtown Class A Vacancy



- There has been a sharp increase in the total amount of available space on the market in the last year as tenants announce they are going to sublease or downsize their current space.

- There is now 5.5M square feet of office space for lease and another 3-4M square feet of dark space could come to the market as tenants existing leases roll over in the next five years.

Fiscal Cliff - Downtown's Current State

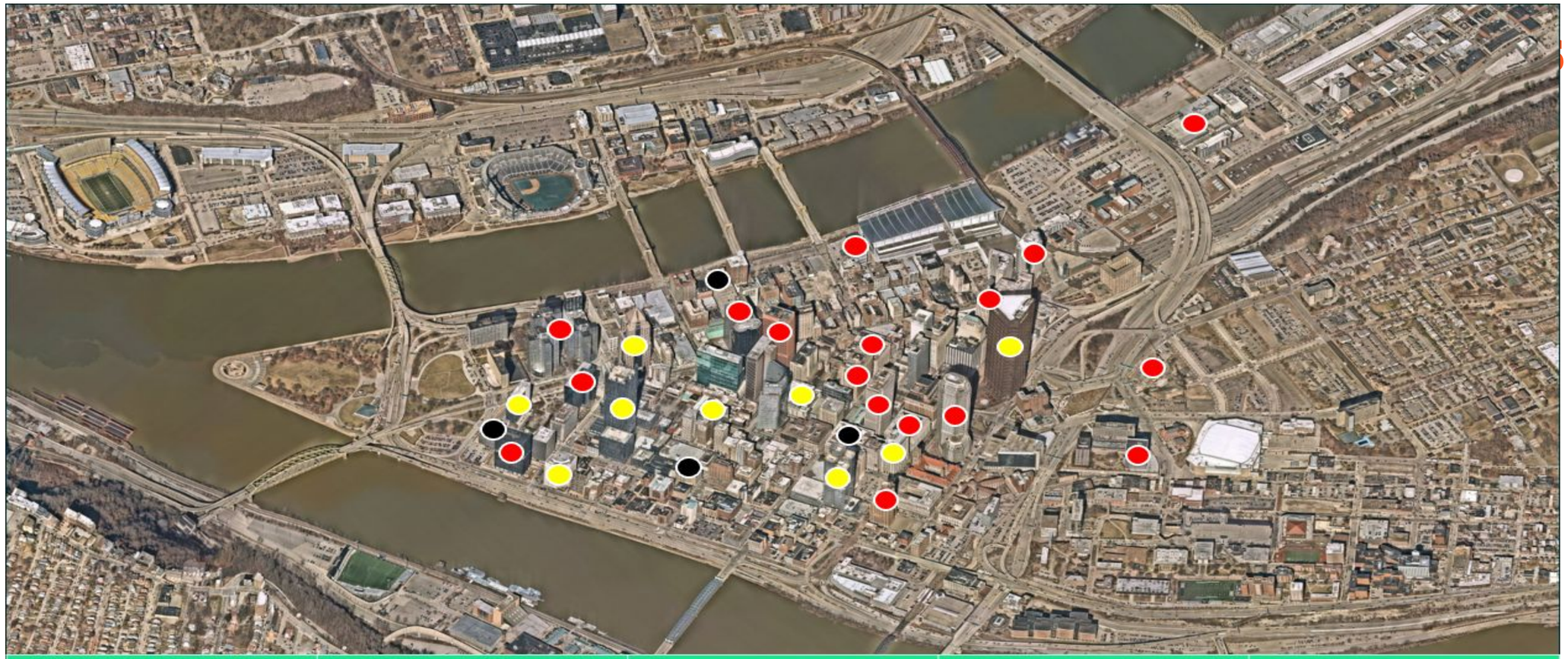
- 55% of 2019 employees returned Downtown.
- Over 50 downtown buildings have appealed their current assessments and have won large real estate tax reductions – some by over 50%.
    - However, that number does not include the impact of the upcoming lender foreclosure sales and the new Common Level Ratio - driving assessment floors lower.
- Buildings such as 210 Sixth Avenue and the Grant Building have had their lenders file for receivership in the last month.
- There are 17 buildings totaling 9M square feet of buildings with significant distress that will likely be taken back by the lender. This represents nearly 40% of CBD office supply.

Distressed Office Buildings: Supply/Demand Problem

Distressed Status	Inventory	Buildings	Real Estate Taxes
Stalled Renovation	600k SF	4	$1M
Significant Distress	9M SF	17	$16.5M
Pending Distress	6.5M SF	9	$14M

- 24M square feet of total Downtown Office Space
- 30 buildings totaling 16M square feet of office space in distress
- 66% of office supply in distress
- Office supply must decrease (Gulf Tower)

Distressed Office Buildings: Supply/Demand Problem



Color	Status	Inventory (SF)	Buildings	Real Estate Taxes
Black	Stalled Renovation	600k SF	4	-
Red	Significant Distress	9.0M SF	17	$16.5M
Yellow	Pending Distress	6.3M SF	9	$14.0M

Fiscal Cliff: Incent Investment or Do Nothing

- **Cleveland** extended **15-year,** 100% tax abatement.
- **Boston** initiated a **75% tax abatement** for up to **29 years.**
- **Washington, D.C.**, is near passage of a proposed **20-year tax abatement** (property owners capped initially at **$2.5M/year**)
- **Columbus** expanded 15-year 100% abatement to more neighborhoods

Each city has different affordability requirements, but most require no more than 10% at 60% AMI. Affordability requirements are tied to the term of the abatement.

Fiscal Cliff: Why Conversions Don't 'Pencil Out'

- Pre-Covid banks would loan at 70% loan to value(LTV) ratio.
    - Ex.) A $100M project would raise $30M in private equity and get a loan for the remaining $70M.
    - Pre-Covid loan market 5.25% interest rate, reducing to 3% during COVID as construction costs escalated.
- Post-Covid banks are lending at 50% loan to value ratio.
    - Ex.) A $100M project must raise$50M in private equity and get a loan for the remaining $50M.
    - With commercial defaults at record high, commercial loans at record interest rate of 8-12%+ depending on project size and LTV.
- High cost of borrowing increases project costs and lowers investor returns.
- Net result: Investors won't put money behind low returns; government must incent.

Fiscal Cliff: The High Cost of Downtown Conversions

- Office buildings weren't constructed to be lived in
  - No residential plumbing and electrical guts; ceilings need to be high enough that these additions won't drop them below regulation height, which is typically at least seven feet.
  - Not enough windows; if the building is very wide, apartments or rooms near the center won't have any.
- Many older office towers built before AC are conversion candidates
  - Constructed from the outset to maximize window access and air flow.
- Office towers remain expensive to buy + costly to convert
  - Buildings refinanced with new mortgage during pandemic; now costly to refinance a purchase.

About 2% of Downtown Office buildings nationally are being converted.

Cleveland is an outlier at nearly 11%

Fiscal Cliff: Financial Incentives to Spur Momentum

- PA state law caps tax abatement timeline at 10 years
- PA has one of nation’s lowest historic tax credits
- Taxing bodies intervention needed
  - Increased abatements
  - Low-interest subordinate debt
  - Streamlined permitting

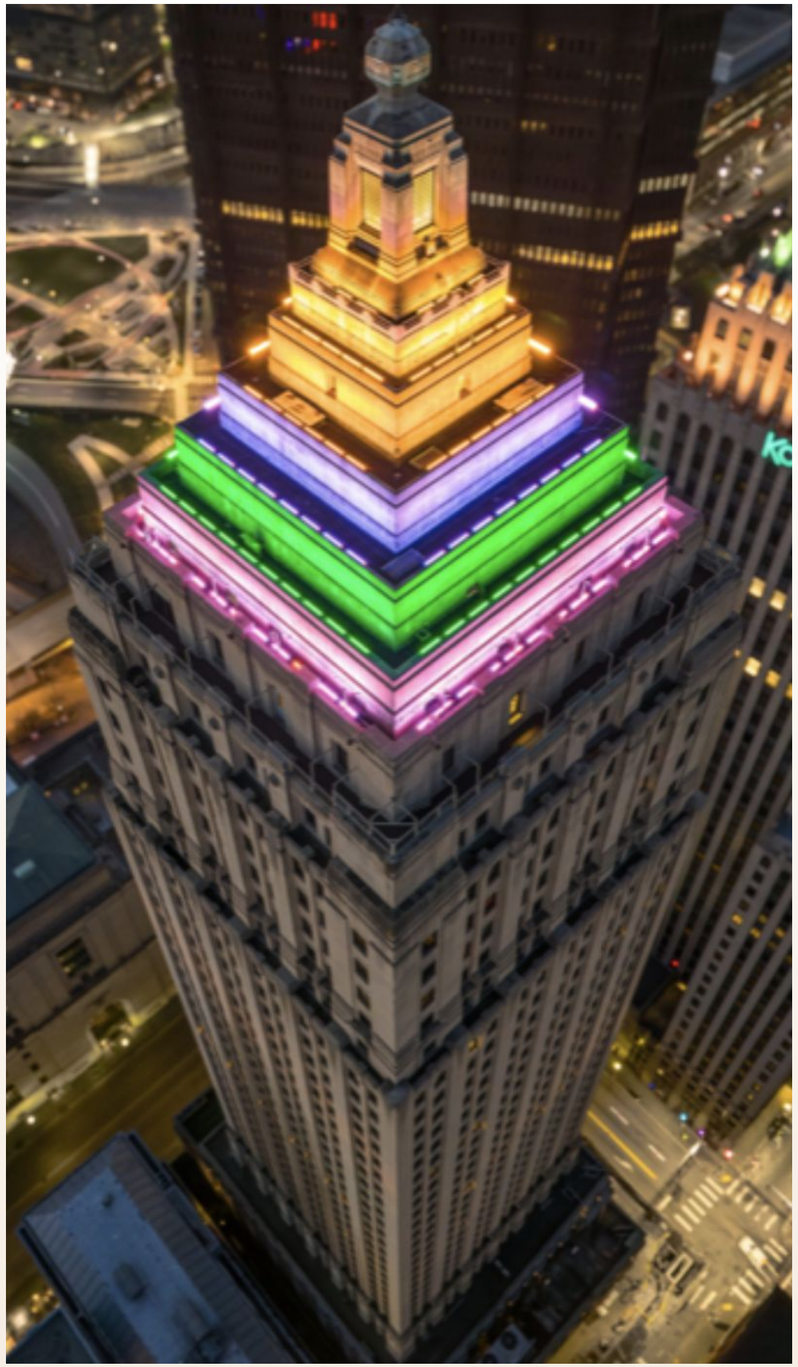
Fiscal Cliff: By-Right LERTA Doesn't Incent Large Conversions

- At $250,000 city abatement cap provides a 100% 10-year abatement for buildings assessed at about $28 million.

- Many conversion projects - and transformational projects - will only qualify for a 25-50% tax abatement due to the cap:
  - Gulf Tower $200M proposed conversion needs an increased cap to move forward.
  - City Club Apartments $100M conversion needs an increased cap to move forward.

- These projects alone will create nearly 600 new apartments and 60 new affordable apartments.

GULF TOWER



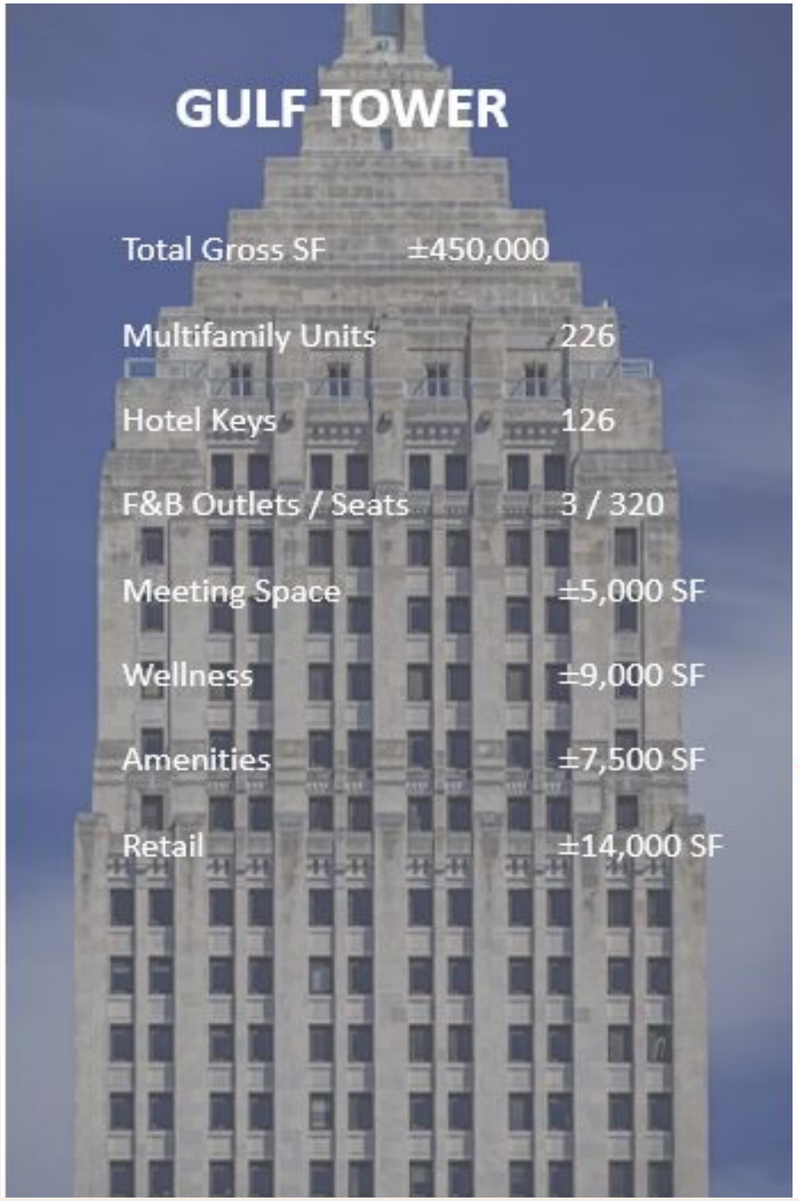
EXISTING SITUATION —

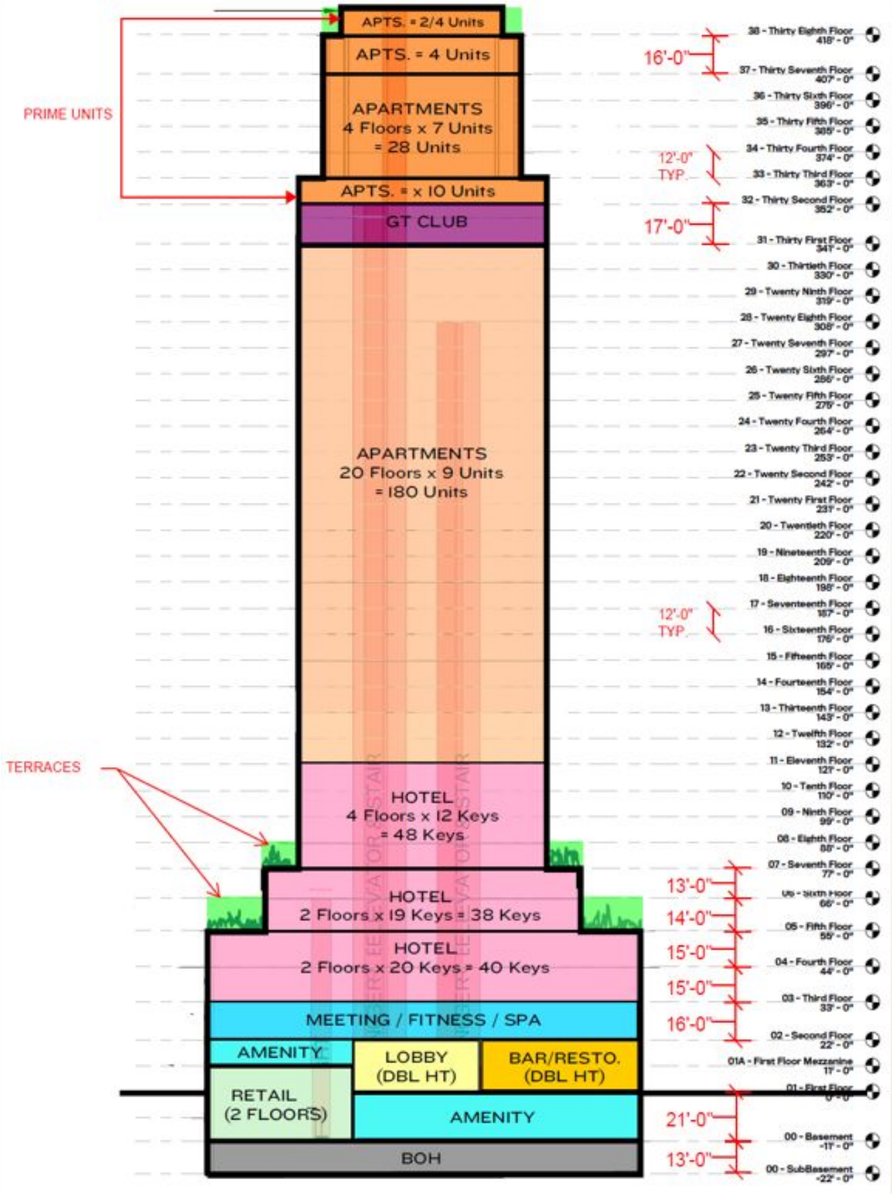
‘DOWNTOWN’S BELLWETHER’

- 44-story office tower built in 1932; tallest, most prominent Downtown building for **40 years** .
- Weather beacon symbolizes its unique character as ‘Downtown’s Bellwether.’
- Catastrophic fire in 2021 cause smoke infiltration in all 44 floors; decimated entire electrical system.
- Successful commercial office building until “*double whammy*”:
  - Fire + pandemic = nearly **60% vacant today** .
  - Building currently operating on temporary electric.

PROJECT SUMMARY

- **$200M** redevelopment opportunity leverages unique floor plate, historic character and market demand.
- Generates approximately **$100M in new local tax revenue** over 20 years.
- Mixed-use development activates streetscape, key corridor with:
  - 14,000 SF of ground level retail including grocer, all-day bar/restaurant, reimagined sidewalks
  - A 126-key luxury hotel w/ 27 suites independently managed (floors 3-11)
  - 226 apartments (floors 11-38); 27 affordable units
- Improves overall commercial office environment by **removing 440,000SF** of existing office space from market.





STACKING PLANS

- **Total Gross SF** ± 450,00
- **Multifamily Units** 226
- **Hotel Keys** 126
- **F&B Outlets Seats** 3 / 320
- **Wellness** ± 9,000 SF
- **Amenities** ± 7,500 SF
- **Retail** ± 14,000 SF

DEVELOPMENT TEAM

Rugby Realty, current owners of Gulf Tower, completed due diligence on conversion opportunities and identified the luxury hotel-residential market as the top opportunity. Rugby aggressively marketed the property for the mixed-use conversion and chose LeftLane. NY-based LeftLane is a vertically integrated real estate development company founded by Jon Kully in 2002. With a mission to create "***culturally meaningful places***," their Savannah-based luxury hotel was recognized by **Travel & Leisure & Conde Nast Traveler** as a "best new hotel in the world." Their expert team specifically targets distressed hospitality markets and office conversion opportunities in high-growth secondary markets like Pittsburgh. A hands-on team, each project is tailored to the unique conditions and needs of each respective market. **LeftLane** will use Pittsburgh-based local construction and architectural firms.

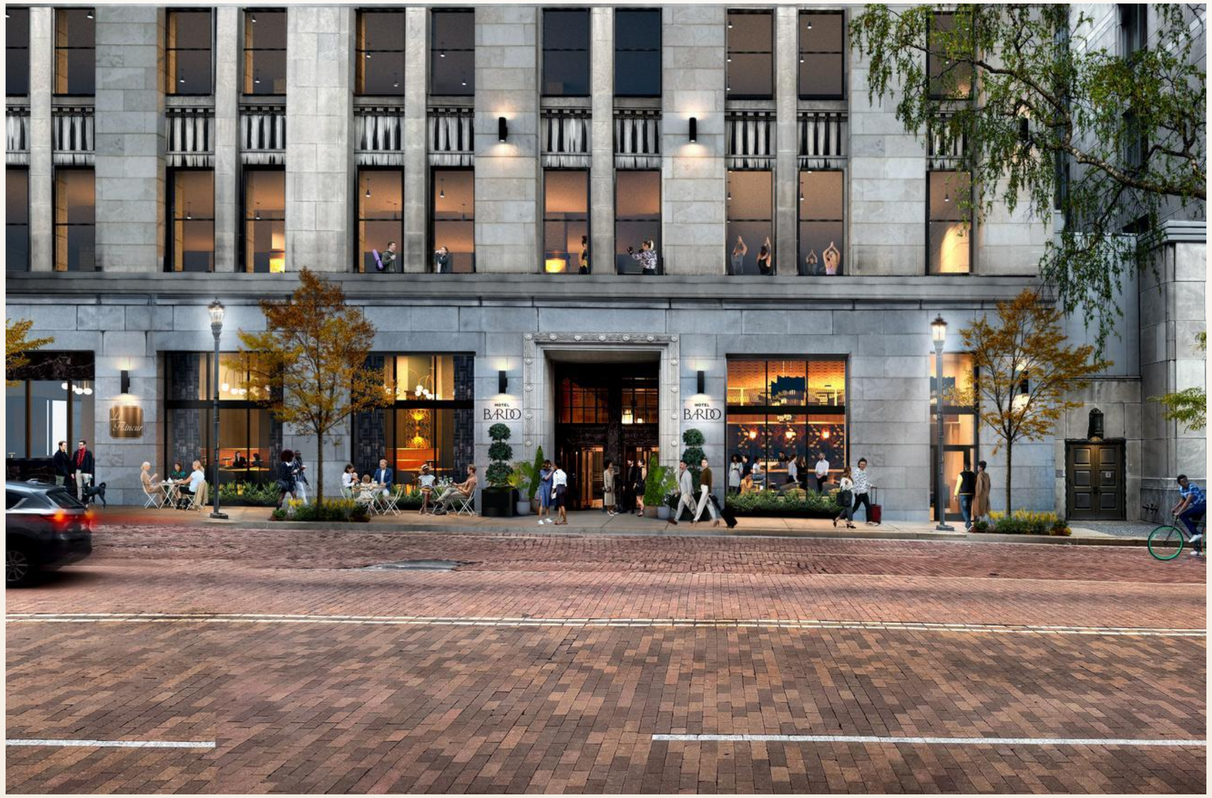
Key Individuals

- **Jon Kully**, Managing Partner
- **Andy Bernard**, Partner
- **Gene Shevaldin**, Senior Vice President

Local Construction Team

- **PJ Dick,** Union Construction Manager
- **Indovina Associates,** Architect

PROPOSED REDESIGN



RECENT HISTORIC CONVERSIONS

Savannah, GA

Providence, RI

Memphis, TN

DEMONSTRATIVE DESIGNS

Project Needs Public Investment to Break Ground

- Project meets every “but for” clause given the inflationary environment and high construction cost of conversions.

- Developers cast wide net: Project will receive $5.4M in federal historic tax credits; anticipating $10M state redevelopment capital assistance program grant.

- Downtown by-right LERTA passed by all taxing bodies does *not incentivize large office tower conversions due to low* $250,000 annual abatement cap (no applications).

- **Responding to urgent need to stabilize its tax base and save Downtown buildings like Gulf Tower, City Council passed 8-1 with Mayoral support the Downtown Enhanced LERTA on May 7, 2024.**

Description of Downtown Enhanced LERTA

- City leadership analyzed tax abatements in competitive city sets. Similarly sized project in Cleveland received $47M in public subsidy incentives, including 15-year 100% tax abatement, plus tax increment financing.

- City Council, Mayor's Office worked together to ensure this abatement incentivized affordable, workforce, and market rate housing. Enhanced LERTA abatement tiers:

    - 100% exemption from real estate tax for 10 years if a project reserves 10% of residential units for households earning 50% of the area median income (AMI)

    - 95% exemption from real estate tax for 10 years if a project reserves 10% of residential units for households earning 60% AMI

    - 90% exemption from real estate tax for 10 years if a project reserves 10% of residential units for households earning 70% AMI

    - 80% exemption from real estate tax for 10 years if a project reserves 10% of residential units for households earning 80% of the AMI

Description of PPS Request

- 2 Downtown LIHTC residential conversions awarded - about 132 units
- Through meetings with city and union leaders, it has been identified that the middle-market of **workforce housing** is a crucial necessity.
- Developer is now asking PPS for the same 80% exemption.
    - 80% abatement of the additional real estate taxes after assessment for 10 years.
    - IF the Developer provides 10% of the residential units in a converted Gulf Tower to households earning 80% of the Area Median Income (AMI).
    - What does 80% AMI mean in Pittsburgh in 2024?
        - Household of 1 → $56,640/year
        - Household of 2 → $64,800/year
        - Median PPS Employee → $66,200/year
        - City Police Officer, 1st year → $65,000/year
        - Hotel Manager → $59,995/year

Property Tax Loss/Gain Realities

- If development halts, PPS will lose a minimum of $1M in tax revenue over the LERTA 10-year period (from reassessment). Currently PPS collects about $135,000 in real estate tax per year. That would be cut at least in half via appeal.

- If project advances with assistance from LERTA, PPS can expect to collect an additional $2.9M during the LERTA period, after which collections would skyrocket to ~$1M per year upon expiration of the LERTA.

- Project is unable to receive necessary investment to move forward without this critical piece of assistance from PPS.

- Gulf Tower commits to 10% on-site affordable workforce housing, creation of **450+ jobs**, and streetscape activation to revitalize a key Downtown commercial corridor.

LERTA ANALYSIS

	10 Year Total	20 Year Total	30 Year Total
Property Tax Revenue			
Taxes Without Project			
County	847,815	1,933,089	4,170,146
City	703,640	1,604,360	3,460,997
School	818,651	1,866,593	4,026,699
Total As-IS Property Taxes	**2,370,106**	**5,404,042**	**11,657,842**
Taxes After Redevelopment			
County	1,715,591	7,261,326	16,075,926
City	3,200,361	13,529,731	29,952,559
School	3,747,130	15,764,842	34,895,658
Total Property Taxes	**8,663,082**	**36,555,898**	**80,924,143**
INCREMENTAL TAX IMPACT			
County	867,777	5,328,237	11,905,779
City	2,496,721	11,925,372	26,491,562
School	2,928,479	13,898,248	30,868,959
Total Incremental Property Taxes	**6,292,976**	**31,151,857**	**69,266,301**
TOTAL INCREMENTAL TAXES	**38,892,667**	**105,338,361**	**230,262,247**

A POSITIVE ROI FOR ALL

- $2.9M in additional PPS revenue in 10 years, plus $1M+ annually
- $30M+ in additional PPS revenue in 30 years
- $37 million in new local tax revenue generated in 10 years
- $220M in new local tax revenue generated in 30 years
- 278 union construction jobs; 200+ permanent jobs
- Helps stabilize Downtown's commercial office space market and thereby neutralize/stabilize additional reassessments