



firebrand

Chicago Market

Feasibility Reassessment Project

Final Report

August 24, 2020

Summary of Outcomes

Firebrand Cooperative was engaged by Chicago Market to reassess the feasibility of a retail food co-op in the Gerber Building in Uptown Chicago.

It is our assessment that, taking into account all known factors affecting the project as shared with our team, it is feasible for Chicago Market to operate a successful retail grocery store in the Gerber Building location.

If all key recommendations in this report are followed, Chicago Market is very likely to be able to open and run a financially feasible and successful retail grocery store in the Gerber building location. Our recommendations, as outlined in this report, are achievable but will take significant and focused effort to attain. Yet, all of the recommendations outlined in the report have been met by previous successful startup food co-ops and/or by co-ops in very similar markets with similar site limitations.

Primary Takeaways:

- Sales projections for the Gerber Building location are exceptionally high. There is no other location in the wider trade area that will match this site in potential sales volume.
- Uptown's extremely dense population indicates that Chicago Market's potential aligns with a handful of highly successful food co-ops in the country operating in similar markets with a Dense Urban Model. This model varies from a typical startup food co-op model in some key metrics that have important impacts for Chicago Market's pro forma assumptions.
- These dense urban, small format, high volume stores operate differently in some areas. Having a General Manager who has experience operating a store in this model is strongly preferred and a very experienced food co-op GM is an absolute necessity.
- Our team assessed Financial Feasibility of the store based on operations and provided recommendations about financing the project. The Board of Chicago Market will need to do their own assessment of the financing appetite of their ownership to ensure the Phase 3 capital campaign goal of \$1.4 million is achievable and ramp up their communications and outreach to hit membership targets of 3,500 members at opening.
- If the above financing challenges are met, and the store is opened according to the programming, leadership, marketing, and operational excellence presumed in our projections, we believe that Chicago Market will not just be viable in the Gerber Building, but has the potential to thrive and become a beloved neighborhood institution that will revitalize what is currently an empty storefront in an iconic building in a world-class city.

Our Task

Chicago Market is planning to open a retail food co-op in the Gerber Building in Uptown Chicago, which they are currently leasing from the Chicago Transit Authority (CTA) as the winner of a successful RFP process. In spite of a 2017 market study showing very strong sales projections, previous attempts to make the project viable with existing store design and programming plans were not proving to be financially feasible. In early 2020, they were prepared to terminate their lease and walk away from this site. Upon notification, the CTA provided some additional incentives and a lease renegotiation opportunity that could materially impact the entire project and Chicago Market decided to take one last look before making a final decision.

In July Chicago Market engaged Firebrand Cooperative to bring together a team of experts to reassess the feasibility of a food co-op in this location, specifically seeking fresh thinking and innovative solutions to the store design challenges, programming concept and overall financial feasibility. Renegotiation of a new lease was pending these results, so the goal was to complete the Feasibility Reassessment in an eight week timeframe in July and August of 2020. At the end of our assessment period, we offer this report of our findings.

Team of Experts

A multidisciplinary team from several organizations worked together cooperatively on this project with everyone bringing unique skills and perspectives to form a very dynamic and effective team.



Kaye Kirsch – Firebrand Cooperative

Kaye has built startups and nonprofits around the globe. She is a co-founder of HealthStore Foundation which provides healthcare in East Africa through an innovative micro-franchise model, and has served as Operations Director of a community health care center in India. Inside the US, Kaye has worked extensively in project management in the tech industry, including multiple cutting-edge startups. She was the multi-year project manager of Prairie Roots Food Co-op, successfully funding the \$2.9 million project and leading the store to open with over 1,600 owners,

and she also served as an Interim General Manager. She brings two decades of project management, development and operational leadership skills to Firebrand.



Dan Arnett, GM, Former GM at Sacramento and Central Co-op in Seattle

Dan Arnett is a veteran of the co-op grocery business. After serving in various management roles (most notably a decade-long run as Store Manager) at Good Foods Co-op in Lexington, KY, he went on to serve as General Manager/CEO of multiple cooperatives. Dan served as the CEO of Central Co-op, headquartered in Seattle Washington's Capitol Hill Neighborhood. He then took on the role of General Manager for the Sacramento Natural Foods Co-op to lead the relocation of the store. Dan now serves as General Manager of the Placerville Natural Food Co-op in El Dorado County California.

Dan also has an extensive background in cooperative governance. He has served on the boards of two primary food cooperatives and on the board of National Co-op Grocers, a cooperative inclusive of over two billion dollars of aggregate member sales annually. He also has served on various other non-profit and cooperative-related boards Dan was a board

member of Strengthening Local Independent Coops Everywhere, an advocacy group in the Pacific Northwest. He is currently the Treasurer of Fairtrade America, a fair trade certifier and advocacy organization based in Washington, D.C. Dan has served on multiple other boards in the US and Canada.

In addition to these experiences, Dan has a wealth of other cooperative experience. He holds a Master of Management: Cooperatives and Credit Unions degree from Saint Mary's University in Halifax, Nova Scotia. He has done field study of cooperative systems globally, including in Cuba, Argentina, Spain, Italy, Guatemala, Nicaragua, and more. Dan has also served as adjunct professor of cooperative business for Presidio Graduate School in San Francisco and Seattle and regularly serves as a speaker, educator, trainer, and consultant for cooperatives.



Jacqueline Hannah – Food Co-op Initiative

Jacqueline worked in retail management for 25 years before joining FCI, 17 of those years in the natural foods industry, and 9 in the co-op sector as general manager of Common Ground Food Co-op in Urbana, IL. During her time with CGFC she led the co-op through two expansions, the founding of their Food For All economic access program, a store rebrand, and was the fastest growing retail food co-op in the nation from 2008-2013. In 2010 Jacqueline was named one of the “40 Under 40” business people of excellence by Central Illinois Business Magazine; in 2011 she was awarded the Innovation Award for Economic Development Impact by the University of Illinois; in 2013 she received the Cooperative Service Award from the Indiana and Illinois Cooperative Development Centers; in 2014 she was awarded Co-op Executive of the Year by the Illinois Cooperative Council.



Karla Krueger — Retail PlanIt

Karla Krueger, co-founder of Retail PlanIt has happily been in business since 2008 serving grocery and retail food stores with all levels of design and construction solutions. Previous to that, she and her business partner, Kim Harder worked together for over 20 years in the Engineering Department of a Midwest grocery warehouse serving over 100 stores with all levels of design, construction, store engineering, and equipment procurement and installation needs. Their services vary greatly as each project requires, but their broad background in all levels of the design and construction phase of their projects provide top tier quality and oversight in all situations. Karla's forte is wild creativity, with a deep understanding of the practical realities of the retail food store industry. Retail PlanIt's team offers all levels of design work, project budgeting for equipment and installation, mechanical location plans for construction documents, graphic branding solutions and full interior and exterior décor design, fabrication, and installation. They are passionate about what they do, and they love to help turn ideas and concepts into a beautiful and thriving reality.



Kevin O'Donnell — seven roots

With over 40 years in the hospitality field, Kevin is passionate about sharing his experience. Kevin joined retail natural foods as Operations Manager at Hunger Mountain Co-op in Montpelier VT in 2013 and has been consulting since 1997. His experience has led stores throughout the country to achieve growth and profitability in prepared foods and day-to-day operations. Kevin has been teaching at the collegiate level throughout his career and is a graduate of Cornell's School of Hotel Administration.

Project Roles

- **Dan Arnett** brought vital General Manager level, real-world experience and data to inform the operational considerations of food co-ops operating in a dense urban environment
- **Jacqueline Hannah** from Food Co-op Initiative provided pro bono operational and financial feasibility expertise.
- **Karla Krueger** from Retail Planit provided store design and preliminary equipment and installation budgeting expertise.
- **Kaye Kirsch** from Firebrand Cooperative provided overall project management, operational and financial feasibility assessment, pro forma updates (with additional support from other Firebrand contractors) and oversaw the project as the lead consultant and point of contact for Chicago Market.
- **Kevin O'Donnell** from seven roots provided prepared foods programming and operational expertise.
- The team also consulted with **Marcia Pfeifer** from Dakota Worldwide to seek input on sales projection implications of the proposed changes to design, programming or other operational considerations.

Our Process

Project Launch

Our team of experts started by reviewing background materials provided by Chicago Market, including the 2017 Market Study (and 2019 update), previous store design plans, programming, and financial pro forma work. Of all the background materials we reviewed, the 2017 Market Study was really our first key to unlocking our understanding of how to approach this project. Three things really stood out to us:

- The sales projections for the Broadway/Wilson intersection were exceptionally high. The Chicago Market board was considering walking away from this site due to the design challenges, but the market study was unable to identify any other site in the entire Chicago Market trade area that could deliver sales projections as high as the Gerber Building.
- The Uptown site is located in an area of intense population density unseen by the vast majority of food co-ops. When compared to successful, established food co-ops in the largest US cities, the population density ranks high even among those peers. (See our population density comparisons in Appendix E.)
- This location has an exceptionally high Walk Score of 97% and very strong Transit and Bike Scores as well. Marcia Pfeiffer from Dakota Worldwide, the market study provider, confirmed this and shared that she estimated 75% of the expected customers would walk or bike to the store and only 25% of the customer base would be driving. Understanding that the majority of our customers would be pedestrians, and many of them likely visiting the store on their way to/from the adjacent train station helped to inform our thinking about pedestrian access and traffic flow through the store, programming (particularly in the prepared foods department), customer priorities and needs, and product mix.

Sales projections per square foot for this site outstrip 95%+ of all sales projections for startup food co-ops in the last decade.

— Jacqueline Hannah
Food Co-op Initiative



Rankings from Walk Score for The Gerber Building (walkscore.com)

Site Visit

The Gerber Building was visited in week two of the project by Kim Harder and Karla Krueger, the store designers from Retail Planit, to assess the building and site and by Jacqueline Hannah and Kaye Kirsch, to do on-location research of the neighborhood and Chicago Market's grocery competitors.

While on site, solutions that the team had already been considering for the pedestrian entrance on Broadway and receiving challenges were vetted and an approach for our first store design plan was agreed upon. Additional photos, video and measurements were taken, including 3D images to help the entire team get a sense of the space and how it could be developed.

While in Chicago, we visited over a dozen competitor grocery and speciality stores in the area to assess a variety of different criteria and gain a sense of the overall competitive landscape. We considered a variety of data points at each location including:

- Look/feel of each store
- Parking ratios
- Customer base
- Current product offerings in various departments, particularly in prepared foods / deli / convenience options
- Pricing
- Ethnic options

Next, we assessed what was *missing* from the trade area and identified service gaps that Chicago Market could fill, looking at categories such as where to find a great cup of coffee on the way to work, where one could pick up fresh bakery sweets, and the nearest place locals could grab a good bottle of wine. In addition, we held a focus group of likely Chicago Market shoppers to learn about their shopping habits and patterns. Through this process we also identified some additional potential small, independent competitors in departments Chicago Market will need to be a leader in to succeed, such as produce.

There were several key findings from our site visit that informed the development of our programming concepts and pro forma projections.

- *Chicago Market can own the local food space.* No other competitor is doing this well and it could be a key differentiator for Chicago Market to have an identity built on leveraging local. This applies to not just locally-grown produce and meats, but also artisan baking, value-added products like spirits or condiments, and strategic vendor relationships with food entrepreneurs or beloved ethnic artisans in the community. Chicago is a world class food city and having a store that does a great job of telling the stories of local food will set Chicago Market apart from their competition.
- *Shoppers in Chicago are only moderately price sensitive.* The price differences and pricing levels we saw between and amongst the competitor stores were not as varied in most markets, nor as competitive as other markets overall. Shoppers in this area of Chicago choose their grocery stores for convenience and time savings over price. This is not



an unexpected finding in a dense urban environment, where the majority of shoppers are walking or taking public transit to their grocery store.

- *The prepared foods department will be a critical department for Chicago Market.* The product offerings in the deli and bakery needed to be developed with their location on the transit lines and urban pedestrian population in mind. Their location next to the train station means they can count on morning and evening commuter traffic looking for meal solutions on the go for every meal of the day. Having an efficient prepared foods program with made to order breakfast, lunch and dinner options as well as coffee service, bakery, and robust pre-prepared, grab-and-go options will be critical.

Finding Solutions: Our “Eureka!” Moment

After the week two site visit, the store design team and operational experts were ready to explore the feasibility of new approaches to space planning, store programming, landlord concessions, operational metrics, and financing projections.

It quickly emerged that the population density of this site skewed the sales projections in a very exciting and positive way. We were dealing with a very different kind of food co-op, compared to the vast majority of the over 150 currently open and operating food co-ops across the country. Researching and cataloging the differences consistent to food co-ops in very high density markets, we outlined something we call the Dense Urban Model. This became the lens through which we viewed the entire project.

Two primary patterns within peer Dense Urban food co-ops came to significantly change the feasibility of this project:

- **Labor:** In the previous models Chicago Market had considered, labor was always a limiting factor in achieving operational viability due to 1) the operational inefficiencies of the store design and 2) the high cost of labor in Chicago. Our store design team was able to create solutions to mitigate the largest operational inefficiencies of the site, but our labor cost projections were still on the high side of average for the food co-op industry, despite these gains. Looking to food co-ops in similar large cities, the Dense Urban Model showed higher than average labor as a consistent trend of operating in these markets. Financial viability could not realistically be reached through any further labor cost cutting.
- **Margin:** In prior Chicago Market financial modeling, all margin assumptions were based on a typical food co-op startup in a mid-size city environment. In the Dense Urban Model both labor *and* margins are consistently higher than in the average food co-op. The previous financial modeling had been correct in its higher-than-average labor cost assumptions, but had missed the mark by not also reflecting the higher average margins usually attained by co-ops in dense urban markets. Once the typical margins in these dense urban environments were modeled in the Chicago Market pro forma, financial viability was within reach.

In addition, high population density translates into very high sales per square foot in the Dense Urban Model compared to co-ops in other types of markets. High sales per square foot translates into more sales per dollar borrowed, contributing to a healthy cash flow and to stronger debt coverage ratios. Several food co-ops with square



Eureka! Dense Urban Markets are Different

Though labor is high for co-ops operating in a dense urban environment, so are margins. The labor/margin ratios, combined with the high volume of sales, changes the game from a typical startup food co-op model in mid-size or suburban markets.

footage similar to the Chicago Market site have sales in excess of \$25M. Quickly identifying that multiple aspects of the Dense Urban Model are unique financially and operationally, we took the step of recruiting an experienced General Manager who has operated successful stores on this model, Dan Arnett, to our team in week three of the project to make sure we had the bench depth necessary to consider every aspect of Chicago Market's feasibility.

Idea → Testing → Refinement → Integration

Once we had a firm grasp on the operational differences and standard metrics of the Dense Urban Model, various solutions to store design and programming concepts were proposed by the team within that framework and then carefully evaluated. As decisions were made and directions agreed upon, the operational and financial implications were assessed and the ideas refined. Once the store design and programming concepts were fully developed and the operational model proved sound, the team then focused on the additional challenge of identifying how the project could be feasibly financed. Detailed explanations of our findings in three key areas follow: Store Design, Operational Programming Vision, and Financial Feasibility.

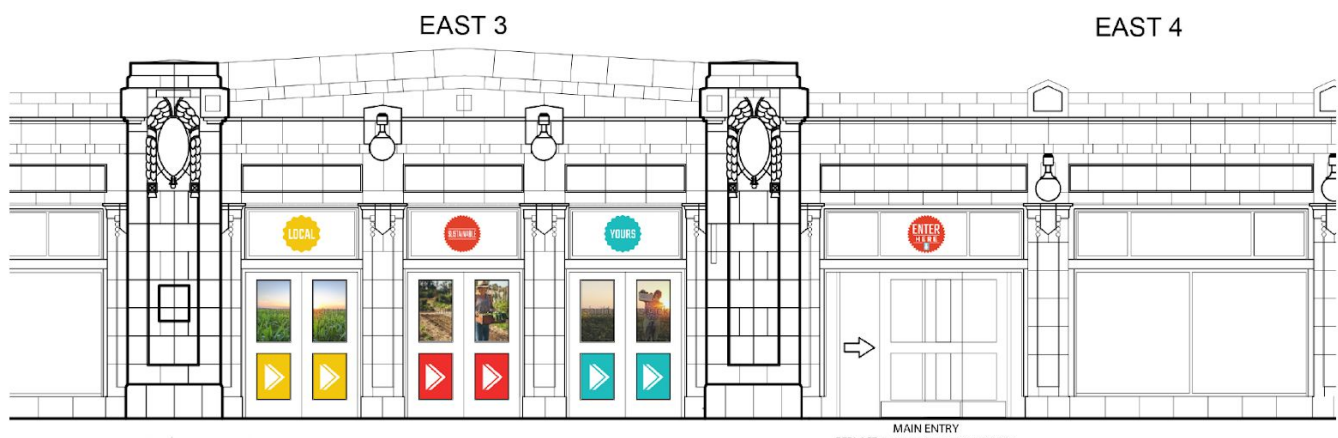
Store Design

Primary Challenges to Store Layout

The Gerber Building's unique triangular shape presents some challenges to conventional food co-op design norms. Existing store design solutions for the site, prior to our team's engagement, were creating operational inefficiencies that were impacting labor budgets. This was one contributing factor to the inability to find a financially viable way forward for the project prior to the reassessment work.

Challenge #1: Two checkout locations

Previous plans utilized the doors on the corner of Wilson and Broadway as the primary pedestrian entrance, in addition to a parking lot entrance directly from the rear parking lot. This required working two separate checkout locations with space for customer traffic around them. Multiple checkout locations in a small, irregularly shaped store such as this complicated customer flow, reduced retail square footage, increased labor and security expenses, and contributed to the non-viability of past projections.



Solution — Relocate Chicago Market's entry door locations

By moving the main pedestrian entrance from the corner of Wilson and Broadway to what is currently a window bay on the Broadway side of the building, just north of the center point of the building, we were able to create one centralized checkout location to serve both exits. This solution maximizes the retail sales floor square footage to drive sales volume. The clear line of sight from the checkstands to both entry/exit doors helps to create a welcoming atmosphere for the shoppers and discourages retail theft. Though it may seem illogical to place the primary pedestrian entrance *next to* the currently-existing main pedestrian entrance, this door is very intentionally and optimally placed across from the parking lot entrance. To fully understand this placement, you need to consider the pedestrian traffic flow throughout the entire interior of the store, pictured right. Maintaining the primary entrance door for Chicago Market at the existing entrance doors would require substantial rework of the entire interior store design *and* would negatively impact the customer traffic flow, security/line-of-sight, the amount of usable retail square footage and, ultimately, sales projections. It would also negatively impact operational efficiencies and therefore labor costs.



Challenge #2: Receiving

Earlier designs show the receiving area located in the back of the store, off the street, accessed from the parking lot. There is no room in the existing parking lot for the turning radius of a larger truck, no loading dock access, and no space for multiple trucks to deliver at the same time — a common occurrence when dealing with multiple vendors and direct store delivery businesses. These conditions would create complicated, even dangerous, traffic issues with customer and employee vehicles entering and exiting the parking lot while deliveries are occurring. This would create an unacceptable level of risk to both people, vehicles, and the building structure.

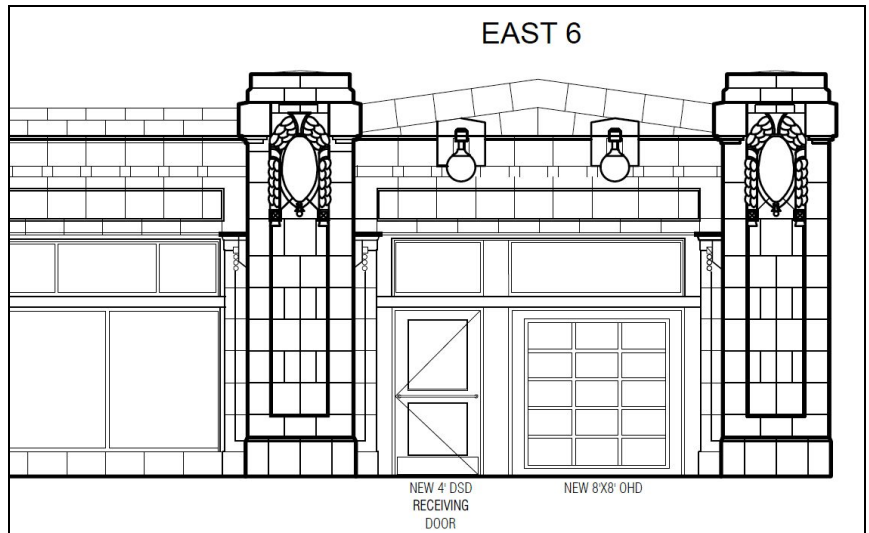
Solution — Situate the receiving doors at the very north end of the building on the Broadway.

By adding an 8' overhead door and a pedestrian receiving door to the storefront entry at the very north end of the building and taking advantage of the opportunity to dedicate a loading zone on Broadway adjacent to this receiving area the receiving

challenge is solved. This configuration ensures the ease and ability to receive multiple deliveries simultaneously while creating a safe separate zone for vehicle traffic to enter and exit the parking area. Receiving will now happen in its own zone away from the parking lot, allowing the parking lot to be safely and fully dedicated to customer use.

It is not uncommon for dense urban markets to receive product via sidewalk deliveries like this; it's actually a fairly common practice in Chicago. Other dense urban, high-volume stores have been able to exceed twice the projected initial volume of

this store in an even more challenging receiving setup that involved crossing lanes of traffic. This receiving solution for Chicago Market, coupled with operational efficiencies in the layout of the interior receiving area and the customized receiving and stocking equipment (including a fleet of wheeled metro shelving racks) is a workable solution for this grocery store. The receiving area will also have a pallet lifter and pallet jack to facilitate efficient movement of deliveries from curb to shelf or storage area.



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Store Design Assumptions and Considerations

As the project moves forward, please note these additional store design considerations:

- The site plan shows 44 parking spaces for a parking ratio of 3.027 cars/1,000 sq.ft. This is an excellent ratio for an urban market.
- This store design and our operational plan assumes that a 100-150' loading zone on Broadway adjacent to the proposed location of the receiving door is approved. We understand that the cost for this loading zone approval from the city would be approximately \$4,000 per year.
- The fixture plans are based on the understanding that Chicago Market will have the ability to mount the refrigeration condensers on the roof of the building with the provision that we shield the view with a decorative facade. We will also need to penetrate the roof with the exhaust hood venting and make-up air.
- The compressor room will be placed in the basement and the mechanical requirements of the commercial equipment will require a number of floor penetrations for condensate drains and refrigeration connections running below the sales floor.
- All office and meeting room functionality in the basement will have duplicate facilities on the main floor and should successfully pass ADA code review.
- The historic stairwell has been preserved in the store design. We anticipate this space would be used for an art installation or co-op educational pieces toward the top and case stack promotional or seasonal displays closer to the bottom. We do not anticipate it being a space that is easily accessible to the public due to safety concerns.

Fixture Plan & Preliminary Equipment Estimate

Files sent with this report include the CAD files and PDF versions of our store design work, including a site plan, main level fixture plan, and basement fixture plan. We have also included a Preliminary Equipment List in Appendix C which provides initial estimates of the equipment costs for the store. Overall, our equipment cost came in slightly under the \$1.52 million we had originally estimated. Our preliminary equipment cost estimate is \$1,477,732. Please note that this **includes** an \$80,000 equipment contingency, which is in addition to the overrun allocation in the uses in your pro forma. Equipment estimates were made assuming all of the equipment would be purchased, not leased, and that the majority of the equipment would be new. There may be some very high-quality refurbished equipment available in a major market like Chicago but that could only be reliably assessed closer to your actual purchasing time frame.

Operational Programming Vision

Product Mix & Customer Experience

Chicago Market will be focused on a combination of quality food and an excellent experience that will be unrivaled in the city. Local foods will be infused into the mix as much as possible, with foods grown and crafted close to home woven throughout the store's product set. Local will be a key feature of the market, which will become widely known as the source for local and regional products.

Natural foods will play a dominant role at Chicago Market. Organics, wildcrafted foods, and simple whole foods will be the bulk of the available products. Shoppers will know they can trust Chicago Market to offer healthy foods that are handled with care from source to their basket. Further, Chicago Market will work to optimize its commitment to ethical social issues through the inclusion of fair trade products, mission-driven companies aligned with the market, and small-medium scale producers operating with sustainability in mind. Unlike many food cooperatives, Chicago Market will also contain a very strong assortment of artisanal products from around the world, focusing on supplying the best in class for product categories. Another divergence from standard natural foods stores will be an emphasis on foods with authentic flavor and sourcing for various ethnic cuisines. The diverse, dense neighborhood will be delighted to have a convenient source for many authentic ethnic ingredients.

Shoppers will relish the experience of Chicago Market. Surprise and delight will await around every corner. Well-trained, helpful staff will make everyone feel welcomed. A small footprint ensures that trips to the store are manageable, yet there will be sufficient space to comfortably navigate the environment. The store will be immaculately clean. Checkout times will be speedy. Product offerings will be diverse enough so every shopper can find products that meet their needs, no matter how big or small their grocery budget is. The Food for All program, BASICS product lines, bulk foods, and member promotions will enable the co-op to embrace the fullness of the community. The accessible parking, public transit, and area density will assuredly make the market a convenient stop. Hours of operation will be fairly broad, with a 6 AM opening appealing to commuters, young parents, and third shift workers, and a closing time of 10pm or later ensuring food access for most everyone, irrespective of circadian rhythm or daily routine. The most sustainably operated, most trusted source for food will be Chicago Market.

Departmental Programming

Produce

When shoppers enter the store, produce is there to wow them. Expertly merchandised products dazzle with an array of colors and textures. Perfectly ripe fruits emanate intoxicating scents. The abundance presented will be notable at all hours with well-stocked displays full of the best organic produce available. Heirloom varieties, fair trade options, a variety of flavors and culturally-relevant options abound. Signage is hand-made but exquisite and branded with care. Local and regional farm products stand out and are well-promoted. Profiles of local producers are notably integrated and tell the story of the food presented simply yet powerfully. Produce will emphasize seasonality, ensuring the best experience attainable for each product type. Produce will be the lead department for Chicago Market and the consistently high quality standard, abundance, and careful selection of products in the mix will make Chicago Market the market of choice for many.

Grocery

Grocery will anchor the market as its highest-volume department. Careful but inspired management of the selection will be the key to success. Organics, fair trade, culturally-relevant foods, and affordable options will enable differentiation and a unique experience. Ethic traditions will be served throughout, and this does mean ingredient standards must be broad in comparison to

some of the more purity-driven coops. For most people, quality, not a series of inflexible standards, drive shopping behaviors and Chicago Market will serve them in a non-judgmental, inclusive manner. While there will be affordable options in a BASICS scheme throughout the environment, most of those items will be integrated into grocery. These high-quality, affordable items will be welcome pantry stuffers for shoppers across the economic spectrum, but will be critical for meaningful inclusion of the whole community. They will be uniquely signed and easy to find. Local artisanal products will be easy to spot as well and will be given priority. At the same time, the best foods from around the world will be present. It will be a simplified set featuring only the best values and the best quality. There will be little to no filler. Every inch of shelf space will be dedicated to products that excite shoppers or meet their needs.

Bulk

Bulk foods will be a critical feature for the market. A dazzling array of whole foods cleanly presented will inspire shoppers to cook from scratch and save money on key commodities. While all the natural food staples will be present, this market will work to include many items essential to cuisines beyond the standard American diet. The department will feature many items packaged by staff and other items in gravity bins. An emphasis on gravity-bins versus scoop-bins will alleviate apprehensions that might otherwise form in the post-COVID world. When scoop bins are utilized, it will be for items that are cooked prior to consumption. The thoughtful layout and handling will give customers the confidence to buy in bulk and reduce the environmental load created by our basic eating habits. Minimally processed, lower cost, high quality, safely handled products — what's not to like?

Dairy

Refrigerated grocery will take on a simpler approach to the rest of center store. Shoppers will find trusted brands, high-quality, local options, and the like. It will be a major convenience to have these everyday products easily accessible in a small format store with parking, train line access, bus access, and walking/biking accessibility. Vegan and vegetarian needs will be well served in this department, and a significant emphasis on affordably priced basics will further broaden appeal across the community. The case design and layout reflects that of other larger scale urban cooperatives and should serve the space well.

Meat and Seafood

Chicago Market will quickly establish itself as a go-to spot for the freshest, tastiest meats and seafood items. While the market will not match the variety of many markets, it will be a pound-for-pound standout. The meat and seafood department will feature a tight, high quality assortment. As Chicagoland is a hub of exceptional meat product providers, Chicago Market will have a great opportunity to offer very high-quality meats. Meats from locally-raised or harvested animals. Superbly crafted sausages. Artisanal charcuterie. Fresh seafood. The department will have something for every carnivore. There will be some grinding and trimming, but we do not anticipate the use of band saws or other heavy equipment, relying instead on external partnerships for the majority of preparation, leaving market staff to pack, wrap, and present the product.

With regard to seafood, there will be a more hands-on approach. Freshness is the most critical aspect of seafood selling, and only by having some of the processing done on site can this be assured. This area is crucial to the brand. Meat buyers are generally the highest profit per customer segment and this department, as designed, will satisfy most needs in a convenient manner. That said, differentiation will matter. Humanely raised, vegetarian-fed, antibiotic-free, and other ethical and health attributes must be rigorously applied in order for the mix to enhance the overall brand of this project.

Deli / Prepared Foods

For Chicago Market the Deli/Prepared Foods Department will capitalize on the location of the market and the changing demographics around it. Being situated adjacent to a train station, the traffic mandates a quick service operation that will offer

convenience, variety and value. The concept “Cultural Vibrancy” will feature the cuisine of Chicago’s ethnic neighborhoods and the market will feature options made in-house, and those outsourced with local partners. This will add economic multipliers for the neighborhood and region and support the overall mission of Chicago Market as a leader in local food options.

There will be a variety of service options in the prepared foods department including a full service coffee kiosk, self-serve bakery items, Grab + Go food and beverages, and a service counter with made-to-order options. A separate cashier in the Deli will help to expedite service for commuters who are just grabbing a quick cup of coffee and breakfast item, plus perhaps a grab and go lunch to take with them. A detailed Prepared Foods Plan with menus and departmental level labor and sales plans can be found in Appendix B.

Cheese

The cheese department will be integrated with the Deli and offer a carefully curated selection of cheese in an eight foot, three-deck low profile specialty cheese case. Great regional cheese products, the finest imports, and organic and natural staples will present a wide variety of excellent product to each customer. Cheese will be cut and pre-wrapped for convenience, but a deli attendant can do custom cuts and sampling for customers as needed. This department will always have samples available and offer assistance in selecting among the wide variety of available cheese options.

Bakery

The bakery department is a great opportunity to partner with local food producers with standout products, and even feature unique flavors or special seasonal products that are only available at Chicago Market. We envision having a full complement of scones, donuts, bagels, muffins, cookies and other sweet treats available, in both single and multiple pack options. House-made cookies will be a pure delight and fill the store with irresistible aromas!

Coffee

There is a lack of espresso-based specialty coffee options in the area immediately around Chicago Market and this service offering will be a big draw to commuters on the way to/from the station in the mornings. The coffee service will include hand-crafted espresso drinks, blended beverages, and brewed coffee options all made with fair trade, organic beans. A separate cashier in the coffee bar will keep busy commuters who just need their daily hit of caffeine on the way to the train moving through the store quickly.

Wine/Beer/Spirits

The Wine/Beer/Spirits section is adjacent to the deli, so grabbing a quick meal and a bottle of wine or pack of beer will be easy and fun. There will be two end cap coolers with chilled wine and beer and multiple rows of additional options on the shelves. The alcoholic beverage selection will not be the biggest or broadest. What it will be is the best curated. Organic options will be included. Exploring the ever-changing market selection of scotch, bourbon, and Japanese whiskies will be a favorite activity for some. Our wines will feature fair trade options, biodynamics, organics, and excellent representations of many styles and varieties. Local products will take center stage - especially regarding beer and spirits. With the great brewing and distillery culture in Chicago, this department will be flowing with local favorites and new options. Regularly scheduled sampling will help to drive sales in this department.

Wellness

The wellness department will feature an assortment of common natural health and wellness items which may include vitamins, supplements, health care, and personal care products and convenience items such as aspirin or batteries. The department will best operate with ethical and quality standards set high from the beginning. Cruelty-free body care, wildcrafted and sustainable

harvested herbs, fairly traded source ingredients, and reputable brands will be some of the characteristics that set the market apart.

Department Breakouts: Sales Volume, Margin and Labor Estimates

All together the product offerings in each department will serve a variety of customer needs, from a commuter stopping by to grab a coffee and something for lunch on the way to the train in the morning, to a busy parent who is doing a big weekly grocery shop for their whole family. The following chart shows how each department is expected to contribute to the total overall sales for Chicago Market and includes margin and labor percentages for each. Multi-year data is available in the pro forma attached to this report.

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Other Operational and Programming Considerations

Local

Local goods and services will be a cornerstone of this project. Differentiation, quality value chains, and a greatly enhanced brand all flow from an emphasis on the local and regional economy. The potential to deliver a superior economic multiplier effect exists for this site in light of other similar co-ops' performance in that regard. .

Online Shopping / Curbside / Covid Considerations

There is tremendous potential for online sales and delivery from the Gerber Building. A management team capable of launching such services day one is of great importance. We believe that a combination of Instacart for delivery of most items and Postmates for prepared foods delivery would best suit the store as envisioned. Curbside pickup has shown potential during COVID, but, outside of such an exceptional period, we are uncertain as to the likely cost-benefit of such a service. It should be explored by management once hired and is likely to succeed at this site if the labor necessary to execute effectively is budgeted. The Instacart and Postmates services would work extremely well within the labor plan provided in this report.

Regarding COVID, we do not think that the virus will impact most services over a long-term, but there is likely a great reduction in potential for self-serve hot and cold food bars. We recommend much more emphasis on counter services and pre-packaged items where other tactics may prove insufficient to assure customers of product integrity and safety.

Accessible Food Program

We strongly believe a food accessibility program would benefit the site. While the details should be crafted by eventual management, the report we are providing reflects a 10% discount for those who sign up and show proof of eligibility for specified food assistance programs, such as SNAP or WIC. Management with experience in handling such a program would benefit the launch with store opening, and this should be considered. The program as stated would add incremental volume of sales not likely captured in the market study and, while it would create a new expense line, the program will generate income to the bottom line.

At the same time, our team has had experience with basics programs aimed at providing affordable options throughout the store environment, and we recommend this as a component of the presentation of service. Also, we believe options to join the coop as a member should be available that allow for a reasonable payment plan that requires only smaller payments over a longer period for those who want to join but feel a financial pinch. We believe that such a program is essential, can operate under an honor system, and should allow no more than five years to pay off the equity stake. This would balance the values of equality and equity while providing a fair return on capital and low-barrier to entry. Launch of this spread out payment option should happen upon or after opening, not before.

Store hours

The store will be open, in accord with the CTA expectations set forth in the lease materials and also in accord with market demands, from 6 AM - 10 PM most days. Some holidays will have reduced hours of operation, but the store will be open 365 days per year. With public transportation operating 24 hours per day, and a very dense urban environment, longer hours of operation make sense for the market. Co-op stores in comparable markets typically open at 5 or 6 AM and close anytime from 10 PM - midnight. We believe that 6 AM - 10 PM satisfies the lease expectations and provides strong sales potential, but management may want to extend further into the night in alignment with other co-ops in dense neighborhoods such as the Gerber Building occupies.

Labor

The plan for labor is based upon a minimum wage of \$15/hr and will need to have some tight compression within job roles regarding compensation. Benefits will be comparable to or superior to other industry players in the natural grocery space. We believe that talent will be readily available for entry-level and mid-level jobs at this site. Management with an understanding of how to approach diverse communities will likely be successful in reflecting the community in the staff composition. The talent for the senior leadership will rely to a great degree on the selection of General Manager, as people in higher level functions heavily

weigh considerations of employment upon the management. In short, diversity, equity, inclusion, talent, and stability will require an executive capable of handling those items and establishing a strong workplace culture.

Pro Forma

Starting Pro Forma

To prepare the financial feasibility assessment for this project, our team worked from existing versions of the Chicago Market pro forma from 2019, specifically the 2-29 and 12-12 versions. As a multi-year project, the provided pro forma had already been through many revisions and had many different people updating it prior to our receiving it. *Please note that we are reasonably confident that the majority of the data provided is accurate, but there may be cells in the pro forma where formulas were broken and calculations are therefore inaccurate.* We worked diligently to correct errors we found from previous users and ensure that the most critical data that we updated — including sources and uses, debt schedules, and operational metrics such as labor and margin — were all accurately represented in how they flowed through to the financial statements. We also carefully checked all changes that were made in 2020. Firebrand consultants KK and AG were also diligent and careful in documenting every single change made to the pro forma in the changes worksheet, but we did note changes we observed from other users that were not tracked at the same level of detail.

Our Final Pro Forma

The excel file named '2020-08-22 Chicago Market Pro Forma FB' represents our conservative judgement on the financial feasibility of Chicago Market opening a retail grocery food co-op in the Gerber Building. We determined financial feasibility using standard business analysis metrics for this type of grocery operation, while also being mindful of the key metrics that primary lenders will be looking for.

To get the store to opening day will require the board and owners of the co-op to raise some significant funding through a final phase of capital campaign with an additional \$1.4 million goal. In addition, the co-op will need to raise their ownership goal to 3,500 owners at opening to meet the equity needs of the project. We acknowledge these targets will require careful planning, excellent support and a great communications plan. These targets are achievable, and are in line with what other co-ops in smaller communities have been able to achieve. Additionally, we have accounted for the need for support to reach these targets in the pre-opening budgets, reserving financial capacity to hire outside support.

On an operational level, this pro forma models that the store will achieve profitability in Y3. It is projected in this pro forma that all currently existing owner loans from part one and two of Chicago Market's owner loan campaign can be paid back on schedule, with first payments from phase 1 starting in 2024, or Y3 of this projection. We were also able to successfully model the loans from the forthcoming, third phase of the owner loan campaign having a relatively short repayment period of 4-7 years. The key indicators that lenders look to first in a pro forma, including the current ratio, debt-equity ratio and EBITDA, are within the range cooperative lenders are very likely to be looking for. Cash flow and cash on hand is always sufficient to meet the needs of the business.

This baseline pro forma was reached after developing multiple scenarios that tested key aspects of the business model and represents a realistic assessment of what Chicago Market's business can be expected to look like if the assumptions we used in preparing this are all operationalized as outlined. We've carefully documented those assumptions below with more information than the metrics and short explanations that are in the actual pro forma.

Pro Forma Assumptions

Our team prepared the baseline pro forma using conservative financial estimates that we believe are achievable for a start up food co-op if the assumptions we've outlined here are maintained, and the opening of the store is executed professionally. If

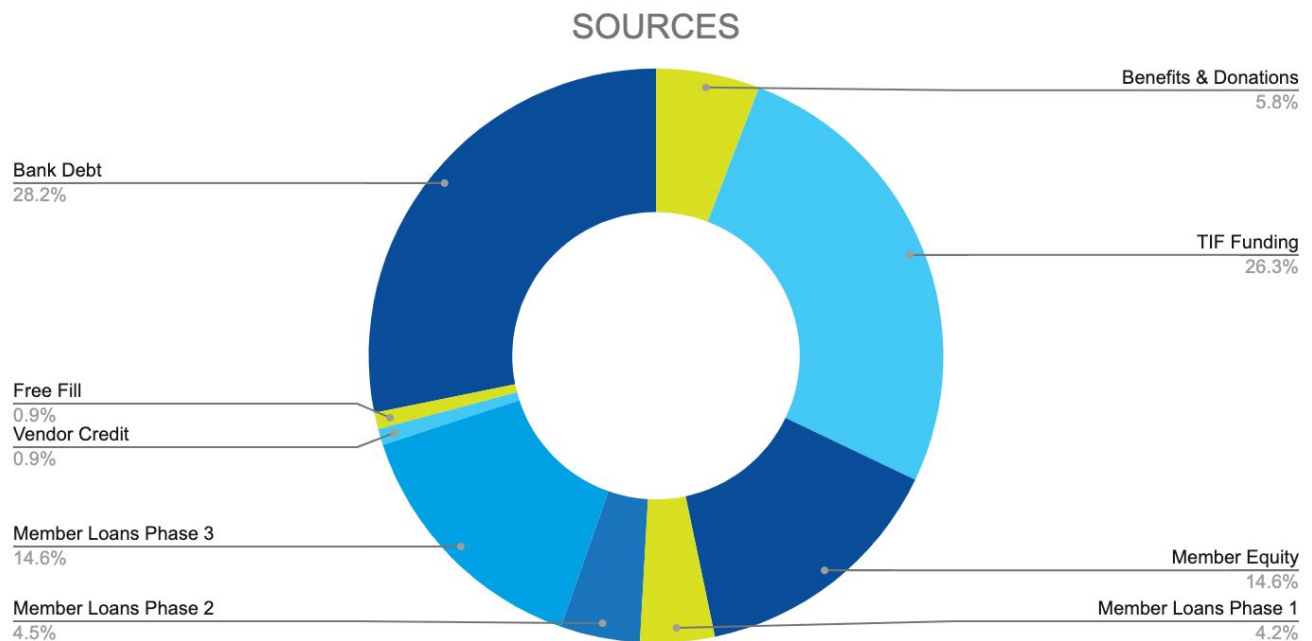
any of the assumptions are not met, it is imperative to return to the pro forma and update the assumptions to determine the impact on the project's feasibility.

Sources & Uses Assumptions:

- Total ground floor square footage informed by RFP documentation and lease. Retail and basement square footage determined by V3.0 Store Plan and Retail Planit calculations.
- Lease rate and utility assumptions provided by Chicago Market. The building will be leased from the Chicago Transit Authority and the property is adjacent to a CTA station and the tracks run above the store.

[TEXT REDACTED]

- Sales per square foot was based on the market study projections from the Dakota Worldwide Study completed in 2017 and updated in 2019. These were then discounted to take into account where your first year weekly sales will start and end, and an overall discount of 12% on top of that to account for ramping up first year operational efficiencies. We expect these estimates are actually lower than what a future market study would find, given the changes to the neighborhood, with more dense housing coming online near the store, and adjusting these 2019 numbers for three years of inflation, with a projected store opening in 2022.
- The earliest store opening date that we could project would be April 2022. Please note that this pro forma is calculated on an annualized basis, with Y1 starting the day you open the store. If the store would open later than 2022, several factors may need to be adjusted, including the repayment periods on owners loans.



- Sources: Donations — This value assumes that 30% of the final Capital Campaign goal of \$1.4 million will come in the form of contributions instead of owner loans. This should be updated with actual final results from the Capital Campaign.
- Sources: TIF — This City of Chicago Tax Increment Financing (TIF) program amount was adjusted to be just above 25% of the total project cost, at \$1.8 million. The approval process for TIF is lengthy, taking a year or more for disbursement of funds, though approval typically takes about six months. There is a slight risk factor that city funds would be pulled from this program in light of the financial impacts of the pandemic, but at this time it seems the program is funded for the timeframe when Chicago Market might plan to submit their application, in approximately October 2020.
- Sources: Member Equity — This \$1 million goal is based on an aggressive member recruitment effort prior to opening and assumes the disbursement of membership levels for a total equity investment of \$1 million as summarized in the chart below.

Membership Equity Planning		
Membership Option	Number of Owners	Total \$
\$500 Cultivating Level	575	\$287,500
\$250 Founding Level	1,500	\$375,000
\$25/month payment plan - all payments completed	1,100	\$275,000
\$25 per month payment plan - halfway through (\$125 paid in)	500	\$62,500
TOTAL	3,675	\$1,000,000

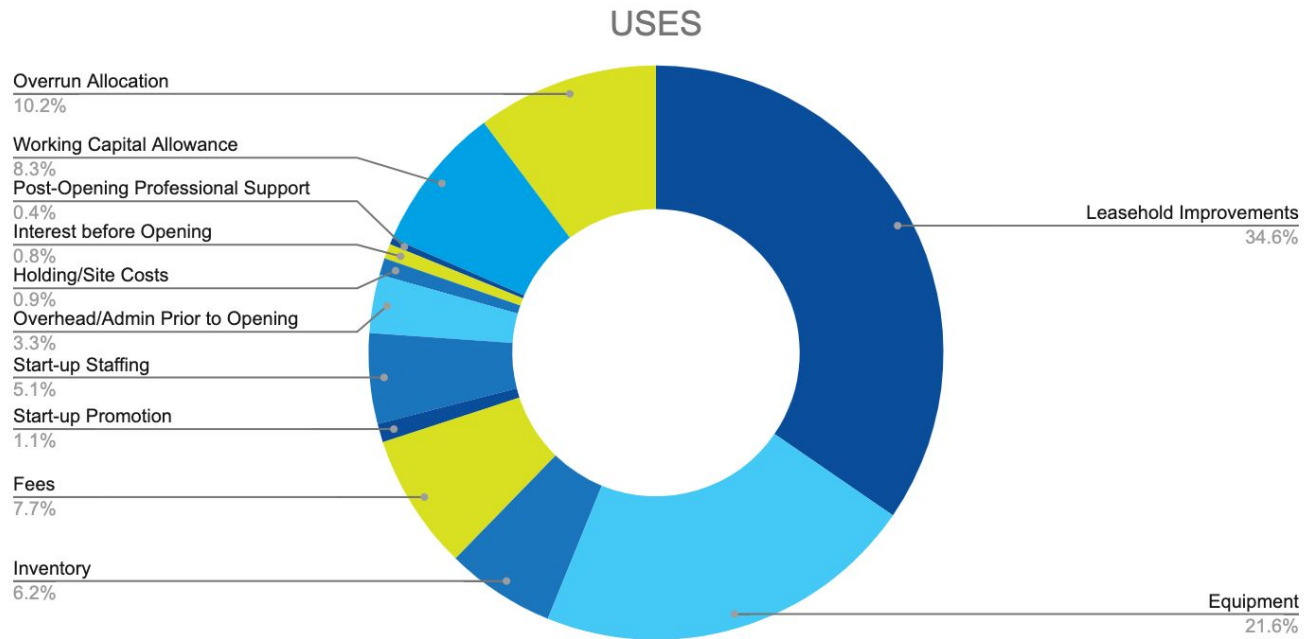
- Sources: Member Loans — These three line items summarize already-completed Phase 1 & 2 and outline the \$1 million target for the third phase of the campaign. We are assuming that the interest rates on phase three will average out to 3% compounded interest and the loans repaid in years 4 to 7 with four tranches of \$250,000 each year. Please be sure these assumptions are updated with the actual loan terms you decide upon for Phase 3. We also factored in the interest that is currently accruing on your member loans¹.

[TEXT REDACTED]

- Sources: Vendor Credit and Free Fill — These values are each calculated at 15% of the opening inventory.
- Sources: Bank Debt — This pro forma assumes a 6% interest rate based on the potential to integrate Advantage Illinois or other favorable debt options to achieve a slightly lower interest rate, such as SBA or USDA Loan Guarantee Programs. Our pro forma shows the bank debt would fund 28% of the project. Lenders have gotten more conservative in recent years and typically like to see this at closer to 25% of the project. However, we feel that the incredible sales potential of this project, the strength of the pro forma, and the potential to have GM talent committed early in the

¹The financial statements in the pro forma show a value of \$35,018 Member Loan interest that will accrue prior to store opening. This interest will not be paid out until the loans reach maturity, but the value you see in cell C63 is then reconciled in Y1 in cell D153.

process will all be factors that would cause lenders to be very interested in this project, and consider lending a slightly higher percentage of the total project.



- **Uses: Leasehold Improvement** — This value is a preliminary estimate based on a higher per square foot cost of \$125 that reflects known realities of the Chicago construction industry². It is calculated using the total square footage of the main level and the basement, and also includes the basement waterproofing remediation costs.
- **Uses: Equipment** — The equipment cost was projected at \$115 per square foot based on the ground floor square footage. There will also be some office and IT equipment in the basement but those items will be lower cost than the equipment on the main level, so no additional amount had been factored in. Our estimate for the equipment using this formula was \$1,522,485. Our preliminary equipment estimate from the attached equipment list in Appendix C was slightly lower at \$1,477,733 so we have updated this cell to that exact value. Please be advised that this number should be updated with actual quotes for the final equipment list.
- **Uses: Inventory** — The initial inventory is calculated at the high end of the recommended range to reflect the product mix we recommend for this store.
- **Uses: Fees** — As of July 2020, the co-op has expended \$266,800 on fees, and there is significant architectural work to be completed yet. A total of \$525,000 has been allocated to this line item, meaning approximately \$260,000 is still expected to be spent to cover additional fees including the architectural work needed to complete the store design,

² TIF will require that a significant percentage of this work be done by woman and minority owned businesses and that all construction contracts require the payment of state of Illinois prevailing wages, both of which drive up costs to some degree. The City also requires that 50% of the construction hours be performed by city of Chicago residents. This requirement is often not met so the City assesses a "modest" penalty for non-compliance. Additionally, you generally need a General Contractor that has worked with these requirements before or at least has someone on their team who can handle compliance and reporting to the City's construction compliance and monitoring group.

Project Management, and other fees. We encourage the board to consider the cost savings of a design/build architectural/construction option for the remaining work.

- **Uses: Start-up Promotion** — This value is calculated as ¼ of the Y1 promotions budget and *should not be reduced*. In fact, if additional funding can be found to increase this budget to help publicize the store prior to and at opening, that would be encouraged for the expensive and competitive Chicago media market. A well-planned marketing campaign by an experienced co-op marketing professional will be important to leverage this budget for optimal impact at the critical store opening phase.
- **Uses: Start-up Staffing** — This value assumes your General Manager starts one year before the store opens and includes a labor budget for hiring and training employees prior to store opening.
- **Uses: Overhead/Admin prior to opening** — As of July 2020, the co-op has expended \$170,000 on fees, and there is additional work to be completed before opening. A total of \$225,000 has been allocated for this line item, leaving about \$50,000 to cover additional costs including Capital Campaign support and other administrative support that might be needed.
- **Uses: Holding/Site Costs** — As of July 2020, the co-op has expended \$42,000 on site costs. A total of \$65,000 has been allocated, leaving \$23,000 to cover additional costs such as nominal utilities, snow removal, and insurance between now and store opening. Note that there are no taxes or CAM costs being charged during the free rent period before store opening.
- **Interest During Project** — At this point, this value is a placeholder calculated using standard assumptions about the amount of debt and timing of a typical startup project. As your loan arrangement becomes finalized, this information can be calculated with actual data from your project.

The scenario was presented to us that if TIF funding is delayed, there may be a need to take out a short-term construction loan to keep the project on schedule. If the co-op needed to do that, and we assume a one-year loan for half of the TIF money (\$900,000) was borrowed at 6% annual interest, and the co-op made interest-only payments for that year, and the loan was completely repaid before the store opened, the net result of that loan would be an additional \$54,000 added to this “interest during construction” line item. This would need to be updated if a short-term construction loan proved necessary.

- **Uses: Post-Opening Professional Support** — This allocation is an additional support amount for outside assistance needed as the store ramps up operationally in the first year.
- **Uses: Working Capital Allowance** — This amount is calculated as 6% of Y1 sales and ensures adequate cash flow to cover early operating losses until the store operations are generating the required cash flow for financial sustainability.
- **Uses: Overrun Allocation** — This cost overrun allocation is initially calculated at 15% of the total project cost and can be used to provide some cushion in case actual construction bids or equipment quotes exceed the expected costs. As your construction bids and equipment costs are finalized this fund can be reduced slightly, and we have now lowered this amount to 10% because we have a preliminary equipment cost estimate, which also includes an \$80,000 equipment overrun contingency. But we encourage you to keep a sizable sum reserved in case of construction change orders or equipment cost changes.

Department Breakout Assumptions

The department breakouts worksheet in the pro forma is our conservative estimate of how each department in the store will contribute to the sales projections. This model is based on the following assumptions:

- Store layout and space allocated to each department as per the Store Design Plan
- Programming and product mix as described in the Operational Programming Plan
- Margin and labor percentages are informed by comparing operational data from existing dense urban, small format, high volume stores as well as the Cometrics database and the direct experience of members of our team. These are

conservative estimates that do not exceed third-quartile results or those achieved by comparable co-ops in terms of size and urban market.

- Please note that the prepared foods department sales projections in Attachment B exceed the conservative projections included in this department breakout so any discrepancy between those two totals is intentional.

Opening and Operational Assumptions that Impact the Pro Forma

General Manager

To successfully open Chicago Market as envisioned in this pro forma, the co-op should optimally have a GM with proven dense urban, small format, high volume operational leadership experience. There is a very small pool of candidates who meet these exacting criteria, but ensuring you have a leader who understands how this unique type of business operates, and has a proven track record of executing at this level will be imperative to achieving the operational performance this pro forma assumes.

In particular, to realize the vision of how this store needs to open and operate to be successful, your GM will also need to fully understand the product mix and be able to build the local vendor relationships needed. Their ability to identify those key local vendors, cultivate relationships and negotiate the necessary terms for the pricing and volume the co-op will need requires a nuanced understanding of the local food scene and some marketing and negotiation savvy.

In a competitive market like Chicago opening the store with all systems in place and firing on all cylinders on day one will be critical. This GM will need the ability to identify and recruit top talent for their management team, and train all their staff to a high level prior to opening.

It is our recommendation that the board of Chicago Market be prepared to do what is necessary to recruit top GM talent to open their store.

Marketing

To execute not only the development of the Chicago Market retail brand identity, but also translate that brand into a cohesive grocery store experience and launch a new store in a very competitive media environment will require a top-notch marketing team. There will be a need for a professional, strategic marketing plan for the store, and a store opening campaign to help drive early sales and set the store on the path to long-term profitability.

Exterior marketing will need to be thoughtful, creative and bold given the facade-change restrictions that come with a historic, iconic building like the Gerber Building. The store needs to be highly visible from all directions, including the train tracks and train station, and stand out to pedestrians, bikers, bus and train transit commuters and drivers alike. The availability of parking and entrance to the parking lot will both need to be prominently signed to make it easy for drivers to find and utilize the parking lot.

But even before opening, there is a need for dramatic new owner growth and re-engagement and re-inspiration of owners to ensure the capital campaign is successful. Having a communication plan that is effective, on point, and comprehensive will be key to achieving both the new owner goal and the capital campaign target. Given the long development timeline and transient nature of Chicago residents, Chicago Market will need to do some additional work to connect with new people in the neighborhood and re-engage their existing owners with a renewed vision for their store, and lay a strong groundwork for a successful owner loan campaign.

NCG Membership

This pro forma assumes that Chicago Market will be a full member of National Co+op Grocers (NCG) at opening, and have access to their vendor discount program with UNFI and others. We believe this is likely, given the market potential of this

project, and current precedent with other promising start-up food co-ops in the past year. If NCG membership is not in place at opening, we would recommend adjusting the gross margin assumptions in this pro forma down by 1.5 to 2 percentage points.

Fidelity to the Operational Programming Vision

The financial performance we project in the pro forma is based on the skillful and exact execution of the Operational Programming Plan as outlined above. A significant departure from any part of this plan will have implications on sales projections, labor and margin and will produce different results.

Co-op Comparisons

Most startup food co-op pro forma provide a comparison of operational data from similar startup food co-ops in the last five years to support the operational assumptions made in the pro forma. The reality is that there *aren't* any start up food co-ops in the last five or even ten years that are opening with a model like Chicago Market, that of the Dense Urban Model: small format, high volume. So there is no recent start-up data to compare Chicago Market to.

But to ensure that our assumptions are realistic and we have accurately captured the way a Dense Urban Model operates, we worked with Dan Arnett, who has General Manager level experience in running exactly this type of store. His decades of operational experience and real-life data informed our assumptions. In fact, the Central Co-op that he used to manage, in the Capitol Hill neighborhood of Seattle is the best comparison we can find. There are some eerily unique similarities between the stores, including the building geometry, and very similar demographics that made it our informal comparison co-op in our assessment. Central Co-op is a mature co-op, so we have discounted the results achieved there to account for the process of building a business from startup to maturity over time. But we believe the labor, margin, and sales projections in our pro forma are achievable for Chicago Market.

Further Recommendations for Chicago Market's Next Steps

From Financial Feasibility to Financing Feasibility

This report was prepared as part of the Chicago Market Board's due diligence to ensure they were making the best decision on behalf of their owners in regards to the Gerber Building site. We have presented a report that suggests that a food co-op at this location is financially feasible, but the next level of due diligence is to assess the **financing** as part of their decision to move forward with a new lease from CTA. The financial investment needed from co-op members to make this project viable is considerable, but we feel that it is achievable with some hard work, a strategic communication plan, and careful planning and execution by this board. Jacqueline Hannah from Food Co-op Initiative, and a team member on this project, will be participating in the August 30 Annual Meeting to help lay some groundwork for your owners on potential paths forward in light of the findings of this report.

Due Diligence - Asking the Right Questions

Though we have tried to thoroughly document our process and findings and provide summary analysis within our scope of work, we understand there may be additional questions on our report. Several representatives from our team look forward to meeting with your board in early September to answer remaining questions or provide additional input based on our research.

GM Hiring

This is perhaps the most critical component, along with the financing, of Chicago Market's success. We encourage the board to consider creative approaches to secure the top talent needed for this store. Having the right GM in place early in the process will ease the lease negotiations, the lending approval process, and will also be a significant milestone that shows progress to owners and the wider community and bolsters belief that the store is now on its way to opening.

New Owner Push & Capital Campaign

With a goal of 3,500 owners at opening, and a Capital Campaign goal of \$1.4 million, Chicago Market has some hard work to do in the months ahead to keep this project moving forward. To ensure that you have the resources needed, please note that between the Fees and Overhead/Admin Prior to Opening line items in the Uses of the pro forma, \$300,000 is still earmarked and available for use prior to store opening. A large portion of these funds will be used for professional services related to construction, architecture and opening the store, but we anticipated that \$20,000 might be utilized for Capital Campaign support, and \$50,000 for Project Management prior to the GM coming on board.

Market Study Update

We recommend having a full market study update completed as you prepare for your negotiations with lenders. They will require information that is no more than one year old and we encourage you to share the Programming Plan for Chicago Market with your market study provider to see if that will further help them refine their report. Seemingly small considerations like the proposed opening store hours, or having a full online shopping solution operational on opening day may make slight differences in the updated sales projections. This update will also correct for any difference in inflation from the 2019 sales update, with what is now a proposed 2022 opening, as well as provide updated competitor data. It's our recommendation to use Dakota Worldwide for your market study update so that the new market assessment will be based on the same model as your first market study.

Lender Negotiation

Developing a plan for approaching lenders, cultivating the necessary relationships, assessing the various programs that could impact your primary bank debt on this project (such as Advantage Illinois, or USDA or SBA Loan Guarantees), coordinating the timing of the TIF application and supporting that process, and ultimately bringing it all together in a final loan package will take some considerable time and skill from the board. This might be an area where a project manager could help ease the burden on the board.

Attachments:

Store Design - Both PDF and CAD Formats

- Ground Floor Fixture Plan
- Basement Space Design
- Site Plan

Pro forma

- 2020-08-22 Chicago Market Pro Forma FB

Cheerful disclaimer: As much as we would love to be able to, we are unable to guarantee precise results based on our projections. This report represents our best professional judgement based on the data provided and the current business environment. We've attempted to document all assumptions and rationale for our projections, but individual results may vary.

Additionally, this report is being delivered in a moment of unprecedented and rapid change to our society in the midst of a pandemic. There are numerous global and national health, security and economic factors that may impact the implementation of this project in ways that we are unable to predict at this time. Ultimately, all decisions based on these recommendations are the responsibility of the board of Chicago Market. Though all recommendations are made in good faith using our best professional judgement, Firebrand Cooperative employees, consultants and subcontractors bear no responsibility for any actions or inactions resulting from our recommendations. In accepting delivery of this report, Chicago Market acknowledges this disclaimer.

Appendixes:

Appendix A: CTA Lease Renegotiation Recommendations (Redacted)

Appendix B: Prepared Foods Plan (Redacted)

Appendix C: Preliminary Equipment List (Redacted)

Appendix D: Exterior Renderings

Appendix E: Preliminary Labor Plan (Redacted)

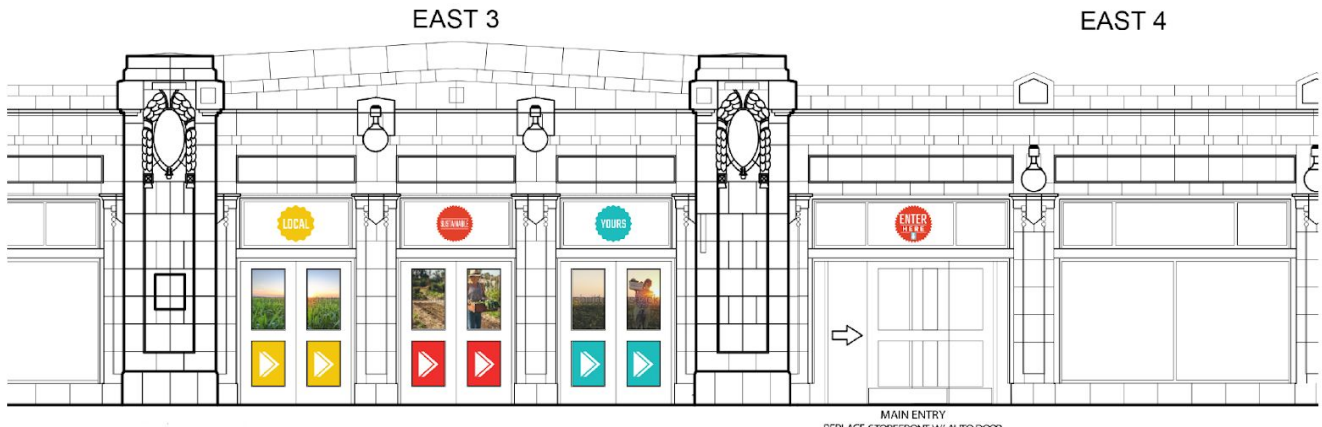
Appendix F: Population Density Comparisons with Central Co-op in Seattle

ADDITIONS:

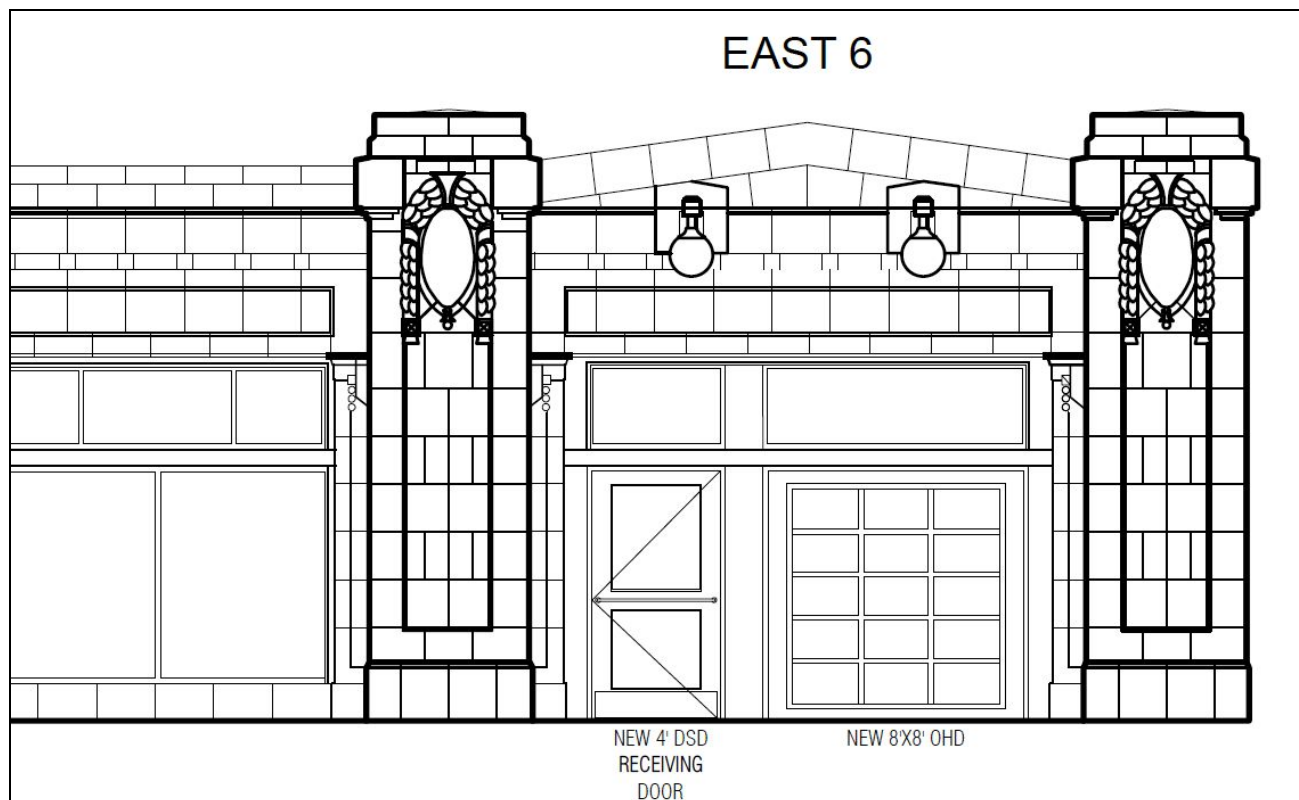
Pro Forma Appendix

Floor plan Appendix

Appendix D: Exterior Renderings



Exterior rendering of the pedestrian entrance from Broadway, above.
 Exterior rendering of the receiving doors at the very north end of the building, on Broadway, below.





One window on Wilson will be completely covered by the walk-in dairy cooler. This mock up shows how a historical informational display could utilize that space for celebrating the role this iconic building has played in Uptown's history.

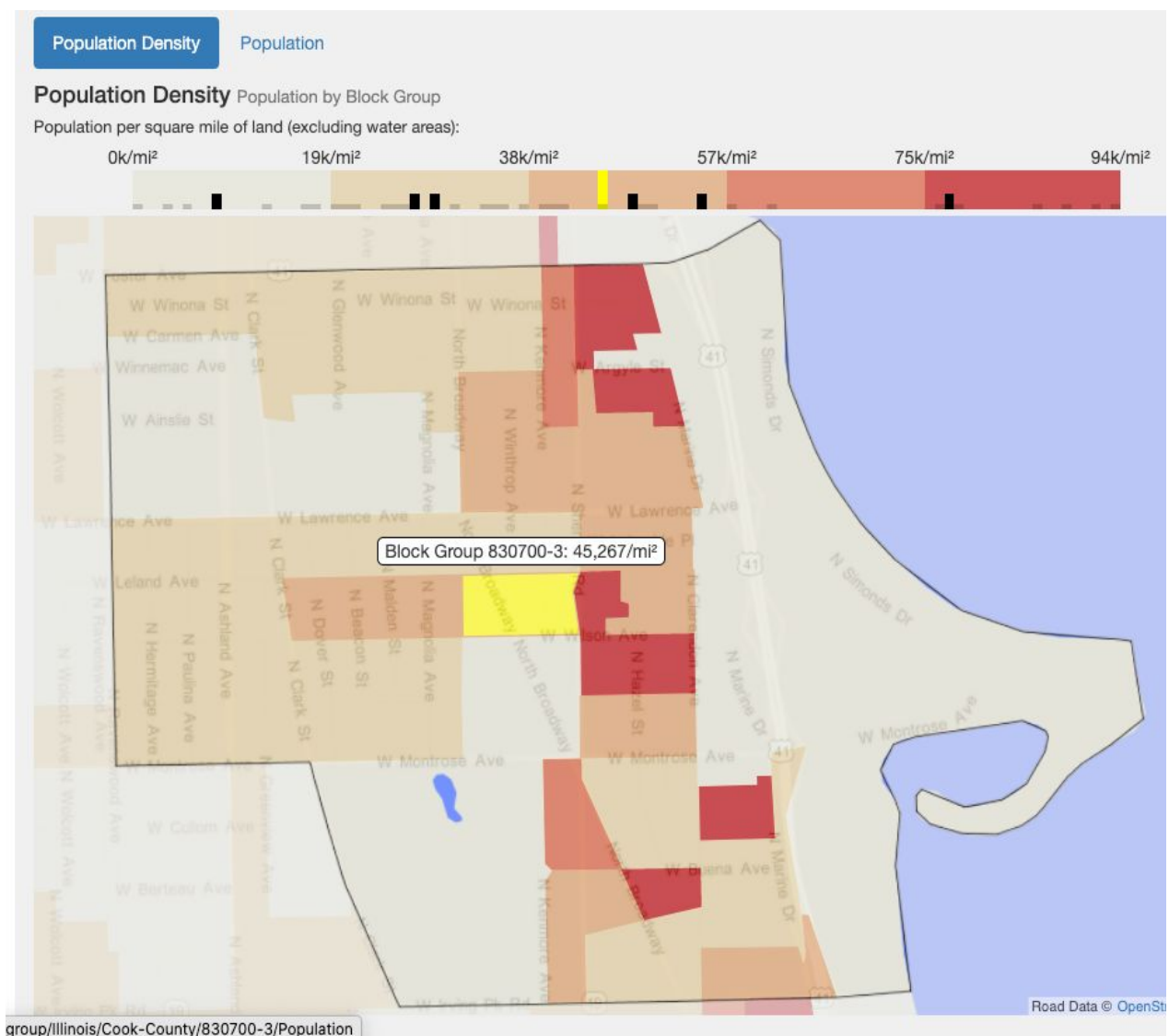


Appendix F:

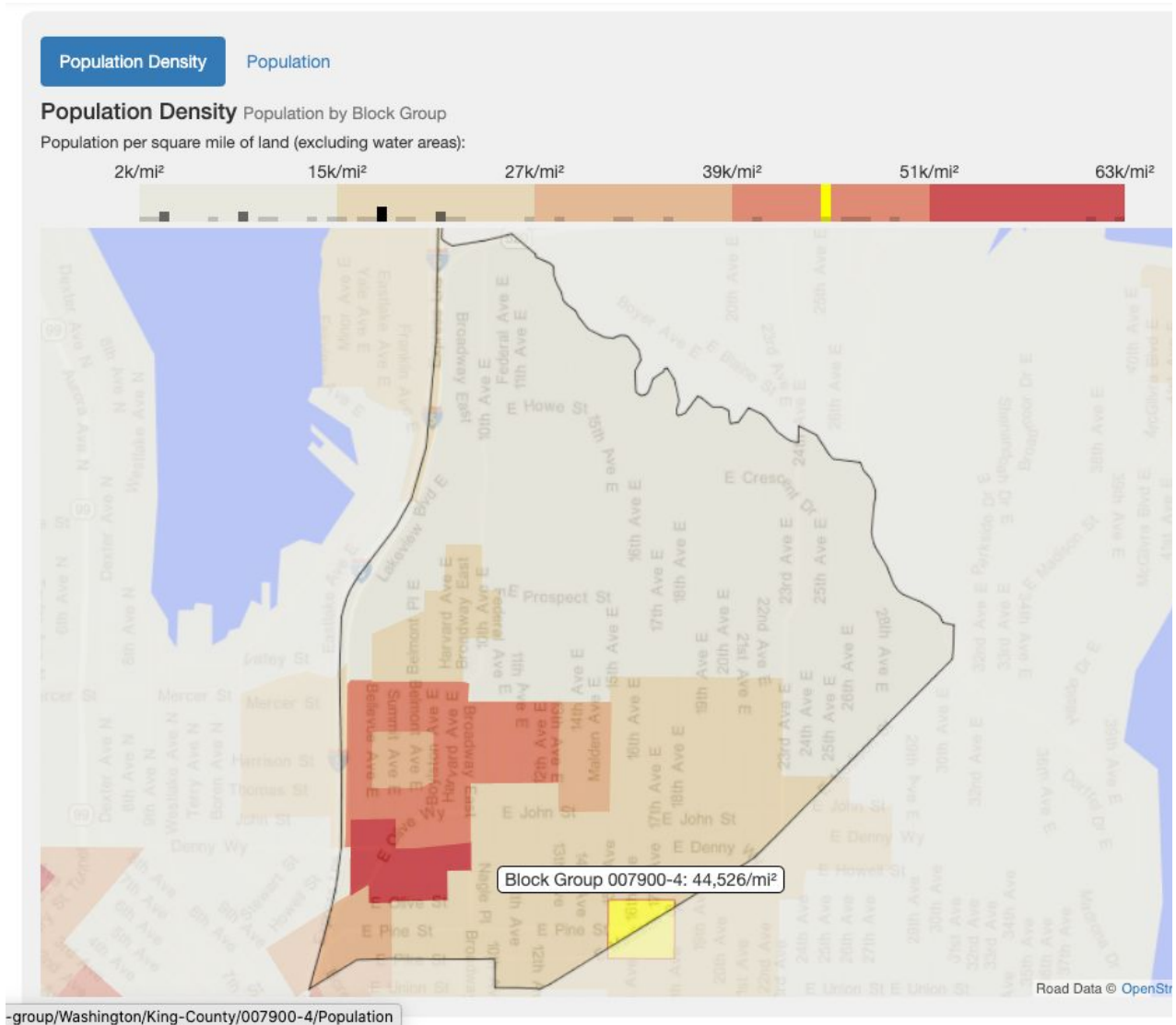
Population Density Comparison Chicago Market / Central Co-op

Population Density of Chicago Market, Uptown Chicago vs Central Co-op, Capital Hill, Seattle

Density of the actual block that Chicago Market is located on: 45,267

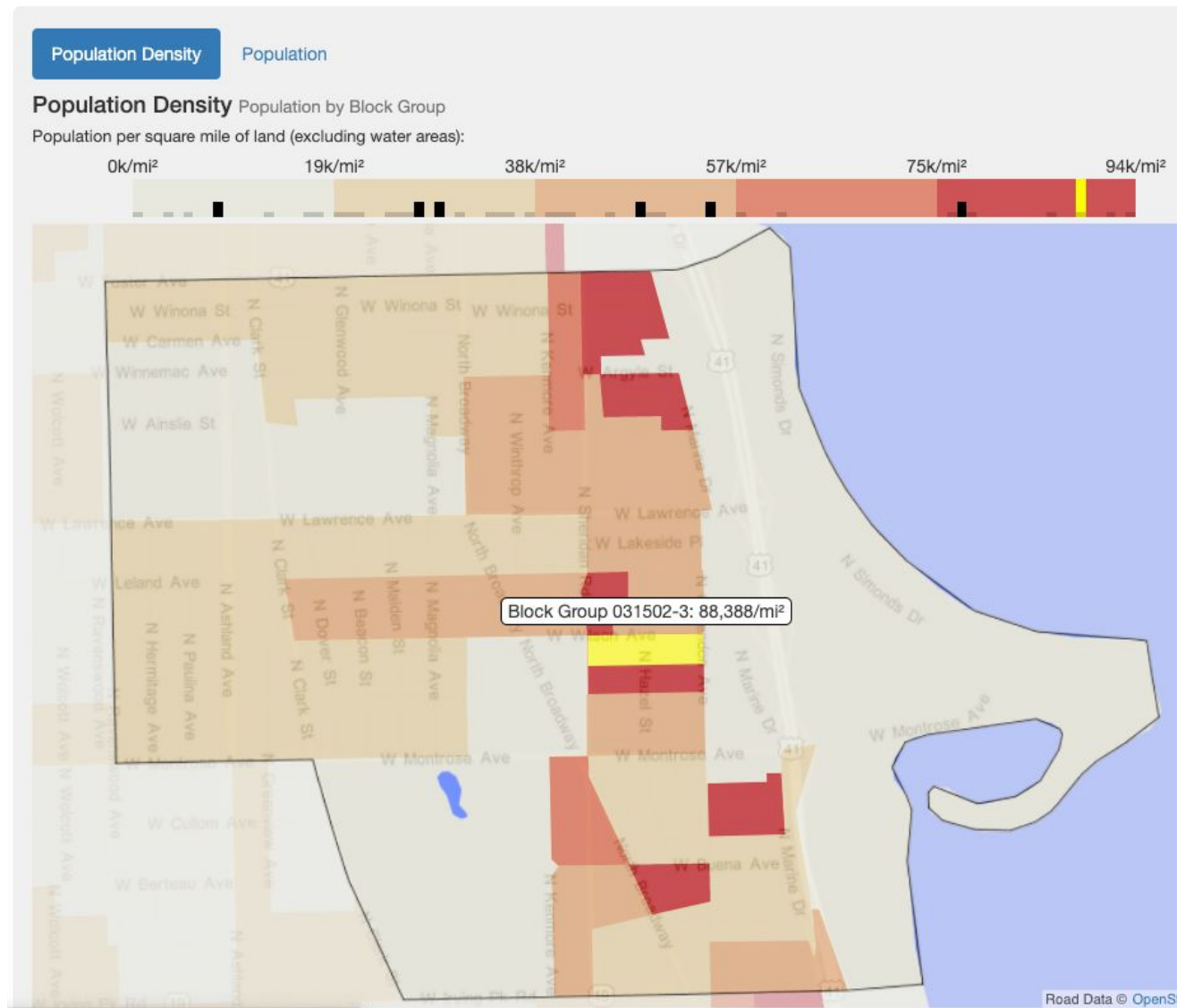


Density of the actual block that Central Co-op is located on: 44,526.

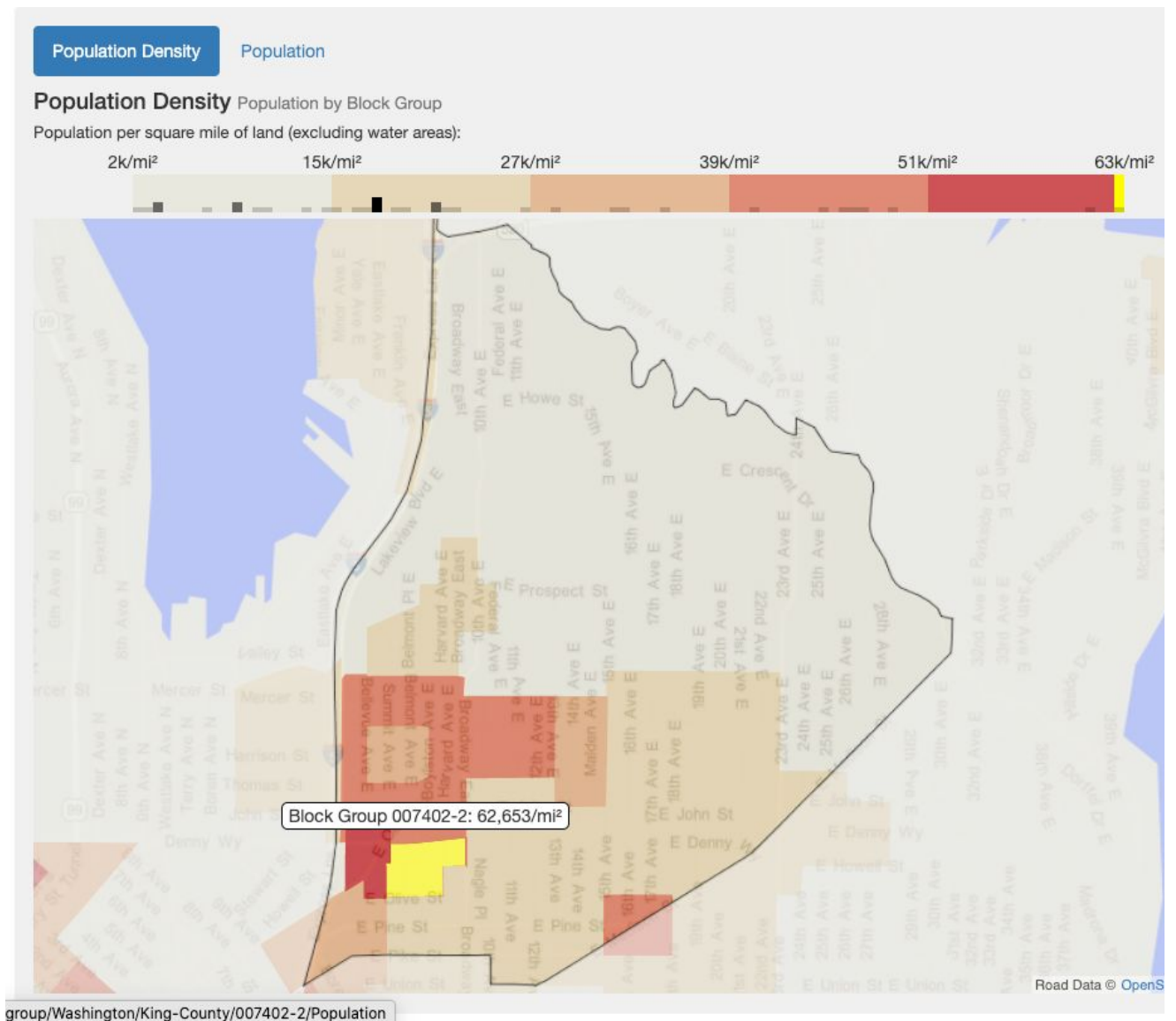


The density of the actual block the two co-ops are located on are almost identical.

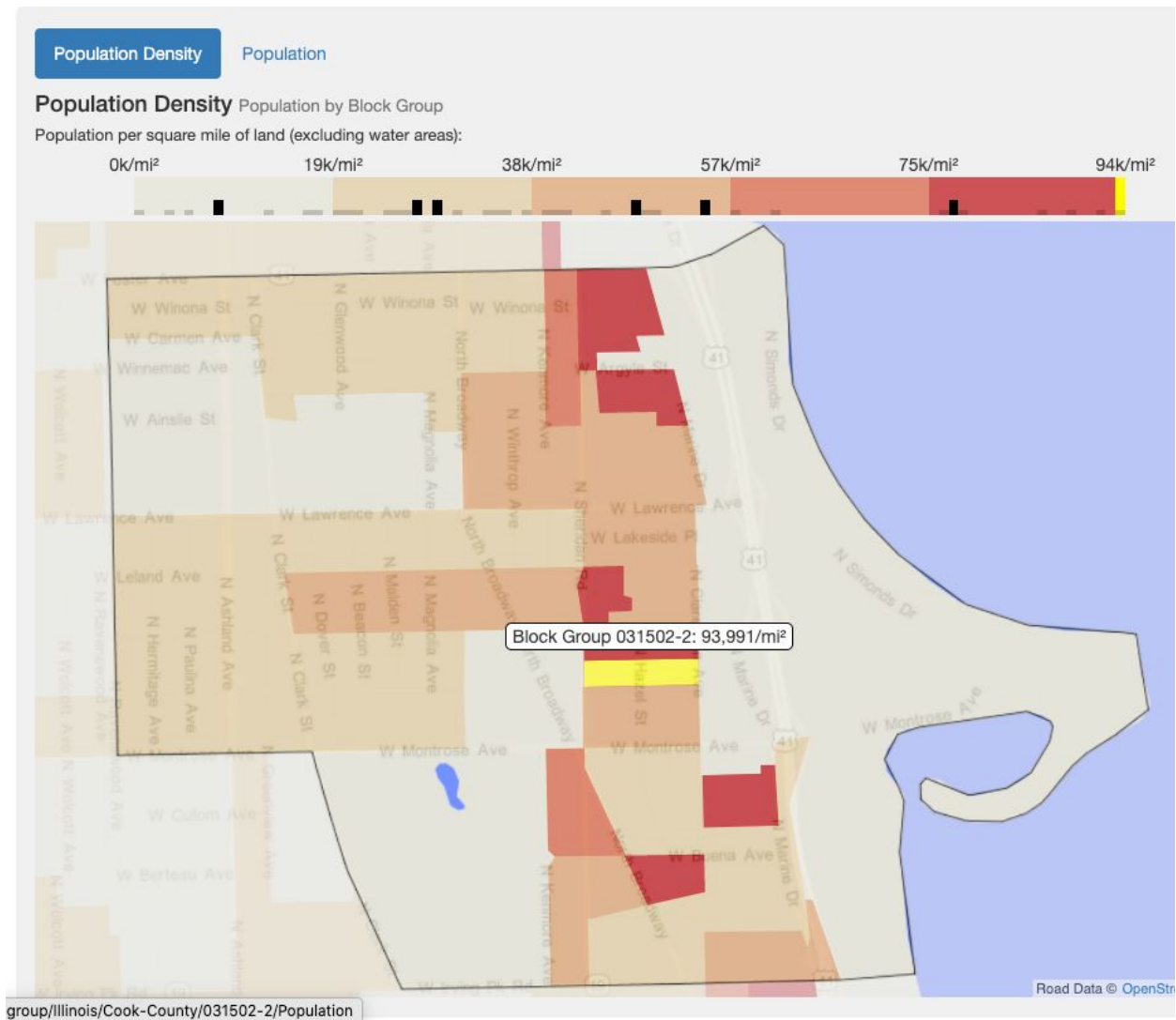
Population density of the nearest block to Chicago Market with higher density: 88,388



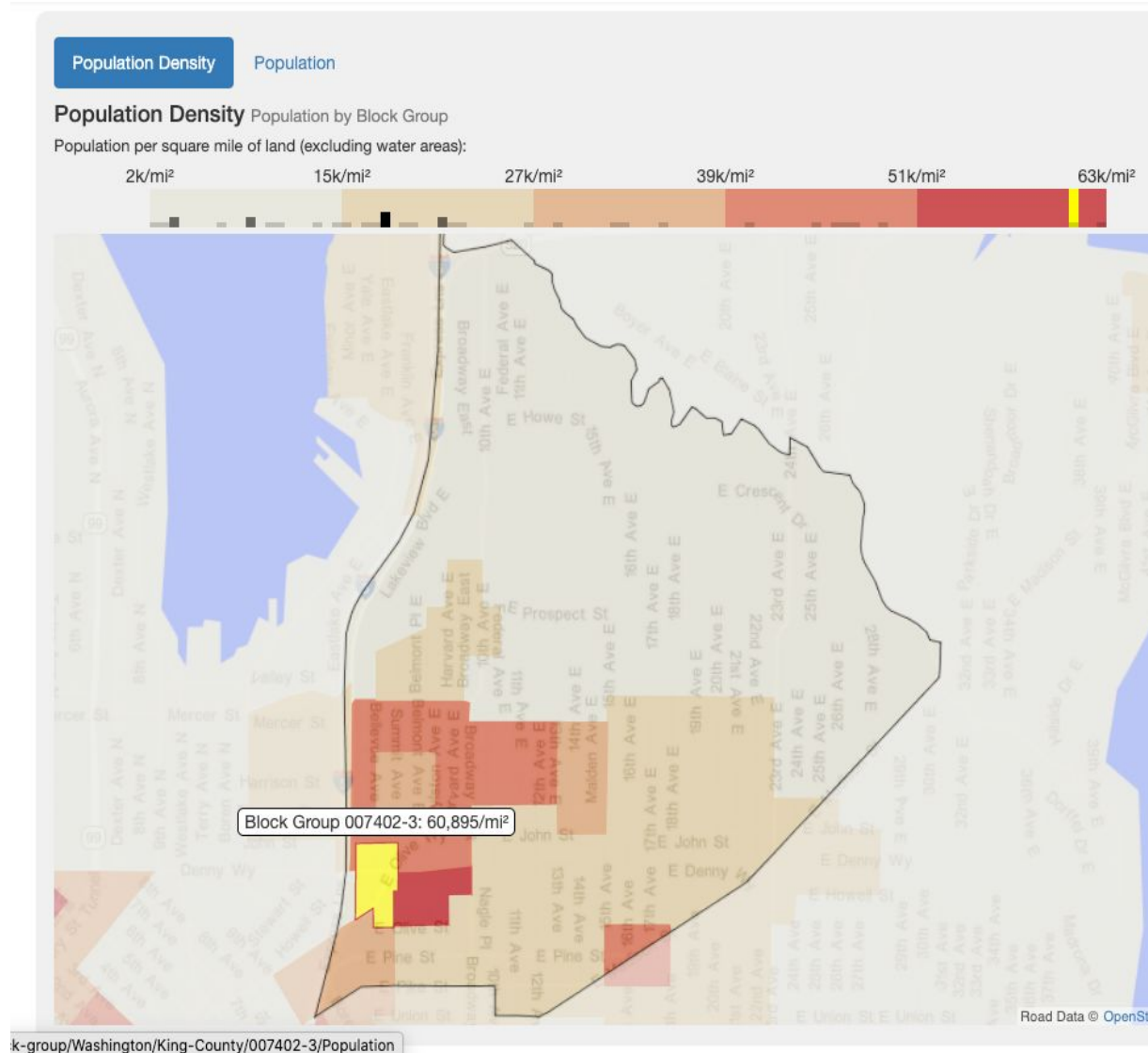
Population density of the nearest block to Central Co-op with higher density: 62,653 (Note that it is further away from the co-op than Chicago Market's nearest highest density block)



Population density of the 2nd nearest block to Chicago Market with higher density: 93,991



Population density of the 2nd nearest block to Central Co-op with higher density: 60,895



Both co-ops are in dense urban neighborhoods along excellent transit systems and share a unique triangular store shape.

Retail Square Footage:

Chicago Market: ~9,000

Central Co-op: ~11,000

Sales:

Chicago Market: First year conservative projection: \$9.4M

Central Co-op: Approximate Current Sales: >\$25M

The neighborhood surrounding Chicago Market in Uptown Chicago is more densely populated than the neighborhood surrounding Central Co-op in Capitol Hill, Seattle.

Data from staticatlas.com, based on 2010 Census Data.

Pro Forma Appendix

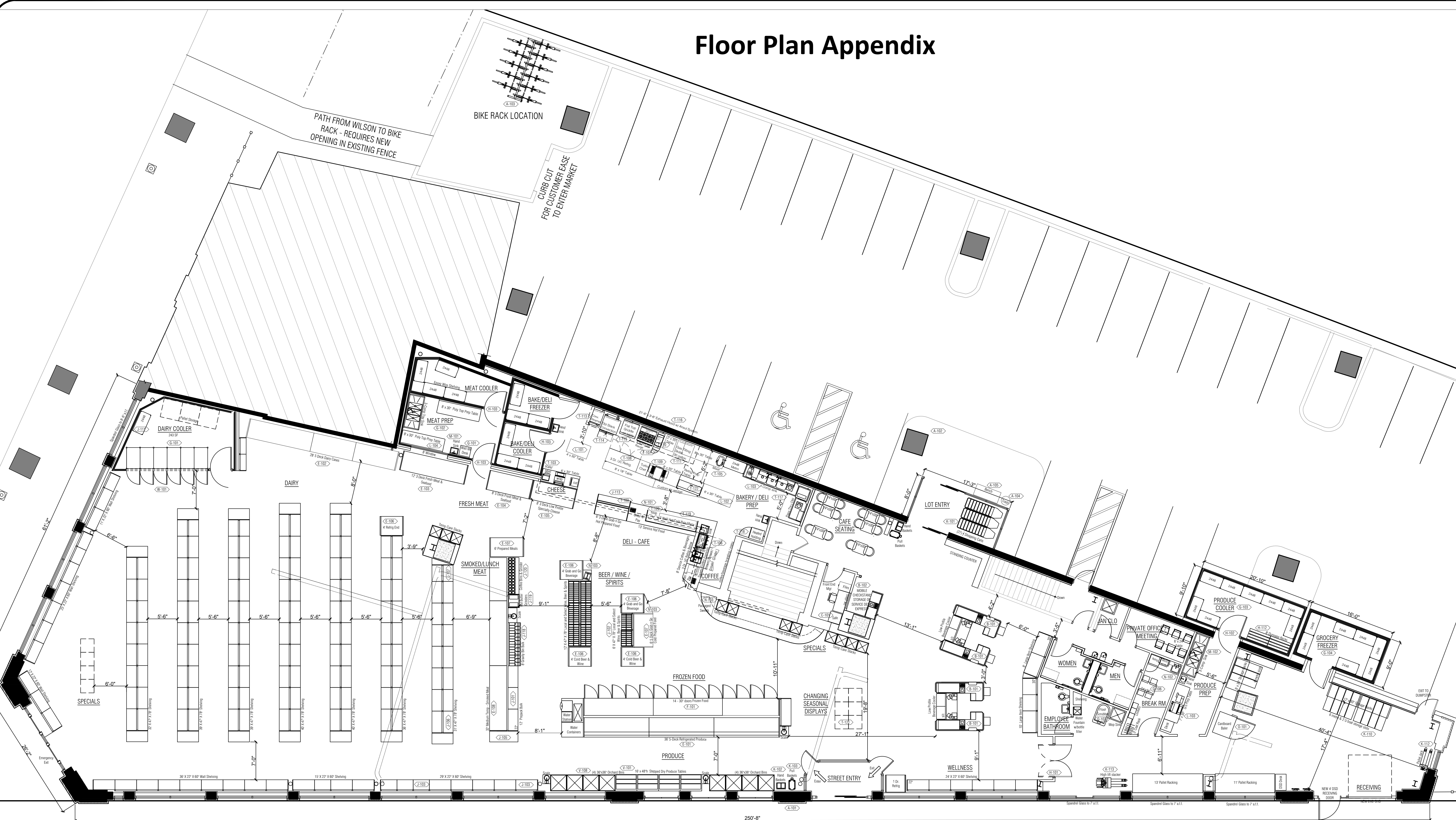
Pro Forma: Key Financial Outcomes

2020-08-22 Chicago Market Pro Forma FB.xlsx													
Desired Outcomes													
Annual Cash Flow	Postive after year 2												
Cash, End of Year	Minimum of \$300,000 at the end of any year for this store type and size												
Days in Cash	At least 13												
Margin Minus Labor (MML)	"Labor" = Total Personnel Expense. 15% of sales is recommended												
Profit (Loss)	Become profitable somewhere between Year 4 and Year 8; profits are less important than cash flow due to noncash expenses												
EBITDAP	Postive after year 2 (EBITDAP: Earnings Before Int/Taxes/Deprec/Amort/Patronage)												
Debt/Equity Ratio	No greater than 3.5												
Debt-Member Loans/Equity+Member Loans	If a project has Debt/Equity greater than 3.5, this should be no greater than 2.5												
Current Ratio	At least 1.25												
Debt Service Coverage Ratio (DSCR)	At least 1.25 by Year 3												
DSCR without member loans	At least 1.25 by Year 3												
DSCR without any subordinated debt	At least 1.0 by Year 2												
Key Financial Outcomes		End of:	Pre-Open	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Annual Cash Flow			54,988	309,984	542,754	270,034	296,015	365,852	225,680	552,646	686,361	734,725	
Cash, End of Year		590,500	645,488	955,472	1,498,226	1,768,260	2,064,275	2,430,127	2,655,808	3,208,454	3,894,816	4,629,540	
Days in Cash			24	30	42	47	52	59	61	71	81	92	
Margin Minus Labor (MML)			11.81%	14.96%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	
Profit (Loss)			-1,466,789	-276,085	93,202	143,569	191,346	256,308	321,894	632,853	606,503	539,537	
Profit (Loss) (% of Sales)			-15.56%	-2.32%	0.68%	1.00%	1.27%	1.62%	1.94%	3.63%	3.31%	2.81%	
EBITDAP			-138,973	365,955	738,452	786,959	829,264	884,338	939,740	996,537	1,056,470	1,119,701	
EBITDAP as % of Sales			-1.47%	3.08%	5.41%	5.49%	5.51%	5.59%	5.66%	5.72%	5.77%	5.83%	
Debt/Equity Ratio			1.90	1.96	1.67	1.31	1.00	0.75	0.49	0.33	0.25	0.20	
Debt-Member Loans/Equity+Member Loans			0.59	0.60	0.64	0.59	0.54	0.54	0.39	0.29	0.22	0.20	
Current Ratio			1.93	1.94	1.90	2.16	2.39	2.34	3.08	3.56	3.92	4.64	
Debt Service Coverage Ratio (DSCR)			-0.50	1.31	2.11	1.29	1.43	1.56	1.25	2.33	2.89	4.05	
DSCR without member loans			-0.50	1.31	2.65	3.06	3.22	3.44	3.65	3.87	4.11	4.35	
DSCR without any subordinated debt			-0.54	1.42	2.87	3.06	3.22	3.44	3.65	3.87	4.11	4.35	

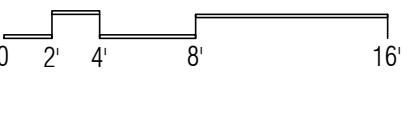
Pro Forma: Sources & Uses

			SOURCES		% of total project	USES		% of total project
Retail sq.ft.	9,364		Benefits & Donations	400,000	5.84%	Leasehold Improvements	2,368,739	34.58%
Total sq ft, ground floor	13,239		TIF Funding	1,800,000	26.27%	Equipment	1,477,733	21.57%
Basement (sq ft to be verified)	4,998		Member Equity	1,000,000	14.60%	Inventory	421,380	6.15%
Total sq.ft.	18,237					Fees	525,000	7.66%
Lease Rate, Triple Net, Year 1	\$238,302	\$18.00	Member Loans Phase 1	287,000	4.19%	Start-up promotion	72,100	1.05%
Real Estate Taxes	\$59,576	\$4.50	Member Loans Phase 2	306,460	4.47%	Start-up staffing	348,600	5.09%
Parking (No CAM)	\$18,000	\$1.37	Member Loans Phase 3	1,000,000	14.60%	Overhead/Admin prior to opening	225,000	3.28%
Total Lease Rate Year 1	\$315,878	23.87				Holding/Site Costs	65,000	0.95%
			Subtotal: Owners Contribution	4,793,460	69.97%	Interest before opening	56,900	0.83%
Sales/sq.ft.	\$1,006					Post-Opening professional support	25,000	0.36%
Total Annual Sales Yr 1	\$9,424,331					Working Capital allowance	565,500	8.25%
Yr 2	\$11,874,657		Landlord Contribution		0.00%	Subtotal Uses	6,150,952	89.78%
Yr 3	\$13,655,855					Overrun Allocation (15% of project costs)	700,000	10.22%
Yr 4	\$14,338,648		Vendor Credit	63,207	0.92%	Total Uses	6,850,952	100.00%
Yr 5	\$15,055,580		Free Fill	63,207	0.92%			
Yr 6	\$15,808,359							
Yr 7	\$16,598,777		City/Community Loan 1	0	0.00%			
Yr 8	\$17,428,716		Construction Loan	0	0.00%			
			Co-op Loan Funds: Shared Capital/LEAF		7.00%			
Yr 9	\$18,300,152		Subtotal: External/Subord	126,414	8.85%			
Yr 10	\$19,215,160							
Utilities per sq.ft. Yr 1	\$7.00		Bank Debt	1,931,078	28.19%			
			1st Position Debt	1,931,078	28.19%			
Off Street Parking	44 spaces		Total Sources	6,850,952	107.00%			

Floor Plan Appendix



PROPOSED FIXTURE PLAN V3.0
SCALE: 1/8" = 1'-0"



STORE DATA:

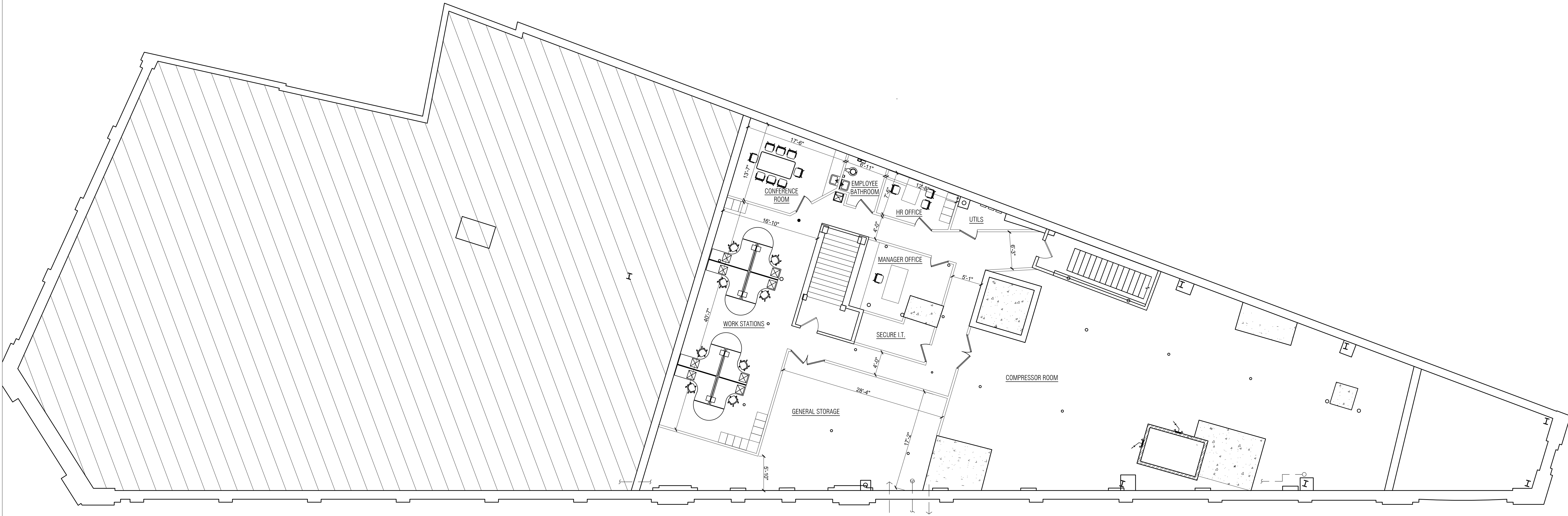
TOTAL BUILDING AREA	14,532 SQ.FT.
TOTAL SALES AREA	9,364 SQ.FT.
TOTAL ANCILLARY AREA	5,168 SQ.FT.
% SALES AREA	64.5%
TOTAL SHELVING	762 LN.FT

SHELVING BREAKDOWN:

LIQUOR	36 LN.FT.
WELLNESS	24 LN.FT.
BULK FOODS	32 LN.FT.
GENERAL GROCERY	647 LN.FT.
TOTAL SHELVING	739 LN.FT.

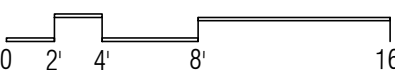
DEDICATED RECEIVING LANE

Drawn By: KJK
Date: 08/24/2020
Scale: 1/8" = 1'-0"



PROPOSED BASEMENT PLAN V3.0

SCALE: 1/8" = 1'-0"



CHICAGO MARKET 2020
BASEMENT PLAN

V3.0

Drawn By: KJK
Date: 08/22/2020
Scale: 1/8" = 1'-0"

No. Date Revision

Prepared by:
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DRAWING FOR REFERENCE ONLY
NOT TO BE USED IN CONSTRUCTION
THIS DRAWING IS FOR DISCUSSIONS ONLY AND IS INCLUDED TO
ILLUSTRATE THE CONCEPTS AND DESIGN OF THE PROJECT.
ARCHITECT AND ENGINEERS DRAWINGS FOR CONSTRUCTION
ALL DIMENSIONS, EQUIPMENT SIZES, WALL THICKNESSES AND
EXISTING CONDITIONS ARE SUBJECT TO ON-SITE VERIFICATION.

CHICAGO MARKET
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