

Octagon Partners Capital Management Statement Regarding the Mercantile Building, Missoula, MT

Octagon Partners Capital Management LLC (via a wholly owned company, 110 N. Higgins Missoula Owner LLC) is the owner of the Merc. There have been some recent statements regarding the history of our attempts to develop then attempts to sell the property. To the extent any history is relevant to your current discussion, we are happy to provide the following.

We purchased the building on 1/7/11 from Macy's department store. The building was vacant when it was purchased. Our development plan was to rehabilitate the property into first floor retail and second floor office. We also evaluated the building for residential uses, but the building demision and existing penetrations precluded an efficient use of the second floor as residential.

From 2011 until June of 2012 we worked with the City of Missoula and a local architecture firm to complete base architectural plans and detailed demolition and abatement plans. By the end of 2012, we had completed the approved demolition and abatement plans.

From 2011 until 2014 we attempted to secure retail and commercial tenants. While we generated interest in the retail, first floor space, interest in the second floor commercial was limited. Multiple financing sources declined to participate in the financing of the project without an anchor commercial tenant. Various local, regional and national potential office tenants passed on the building.

We decided in October of 2013 to list the property for sale. We had unsuccessfully offered the property for lease for almost 3 years. Multiple interested parties toured the building, but we were unable to find an interested purchaser until late 2014.

On October 14, 2014 we entered into a contract to sell the property to SGRE LLC. As is customary in commercial real estate transactions, we granted SGRE a 150 day feasibly period during which they would investigate the viability of their development plan. The Seller, Octagon, as per the contract provided all reports and studies it had completed on the property. The purchaser determined that the existing plans needed to be altered to achieve their desired use, and commissioned additional studies. At the end of the 150 day feasibility period, SGRE terminated the contract. Subsequent to termination, SGRE submitted a second contract that requested significant owner concessions which were neither reasonable, nor viable. The offer was refused and the property was again offered for sale March 15, 2015.

The property was placed under contract with CRSA (a Chicago retail developer) on April 3, 2015. The contract allowed CRSA a 180 day period to conduct their due diligence. CRSA terminated the contract on September 7, 2015. CRSA determined that the redevelopment costs exceeded their initial estimate and the property could not be redeveloped.

HomeBase placed the building under contract on September 15, 2015. The Homebase contract included a 75 day feasibility period. HomeBase has invested significant expense in evaluating the property for renovation, ultimately reaching the conclusion reached by others, that an adaptive reuse of the building is not economically viable. Therefore, HomeBase has presented a plan of development that requires the demolition of the existing structure in order to create a project which will restore the vitality to this important corner.

Based on our history and efforts to redevelop the Merc, we believe the most likely reuse of the corner of Front and Higgins is a new ground up structure as proposed by HomeBase.