# Revised Gap Financing Analysis for Mixed-Use Development at 815 Vermont Street

## PIRC Meeting

## September 14, 2017

NDC

# Update to Analysis – Adjusted Elements

- **Constructions costs were adjusted upward by 5.05% over 2016 estimates given industry trends through the first quarter of 2017.**
- **Projected rents and operating expenses were increased by 3% consistent with the annual escalators projected in the initial analysis.**
- **Condominium sale prices, residential valuations and commercial valuations were increased by 2% over 2016 projections based on the trends identified by the Douglas County Assessor's office.**

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# Update to Analysis – Adjusted Elements (cont.)

- **Interest rate projections for initial financing and refinancing were adjusted upward given recent rate increases approved by the Federal Reserve and anticipated future adjustments.**
- **Projected bank underwriting for minimum debt coverage ratio was lowered to 1.20:1.00 given continued strengthening in the Lawrence real estate market.**
- **Property and sales tax burdens and rebate amounts were adjusted to reflect current levies and rates and adjusted project costs.**

# Update to Analysis – Adjusted Elements (cont.)

- **Property taxes available for the NRA rebate were reduced given:**
  - **The State of Kansas's exemption (under Senate Bill 19) of school district capital levies from local government NRA, TIF and abatement incentives. The change impacts projects where public hearings on incentives weren't conducted before May 1, 2017.**
  - **The Developer has not requested Neighborhood Revitalization Area (NRA) benefits associated with the condominium he intends to purchase for personal use.**

# Defining the "Financing Gap"

- **A project's financing gap is defined as the difference between projected costs (uses) and the debt and equity (sources) it can reasonably attract as follows:**

**Total Project Costs**

**- Bank Loan**

**- Equity**

**= Financing Gap**

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# Defining the Financing Gap (cont.)

Project Costs – are they reasonable & adequate?

- Bank Loan – maximized given lender terms?
- Equity – fair return without undue enrichment?

Gap – are there public sources available to close?

# 815 Vermont: Requested Gap Financing

- NDC's updated analysis (memo dated June 28, 2017) of the request for a 75% NRA rebate for 10 years and an IRB sales tax exemption found the request to be reasonable given:
  - The projected debt exceeds estimated debt capacity given lender underwriting criteria.
  - Projected sales proceeds from the residential condominiums are reasonable given the offered product and current market.
  - Developer returns on invested equity are reasonable with approval of the requested NRA and IRB incentives.

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# 815 Vermont: Returns on Invested Equity

| Sources and Uses of Funds | Amount | % of Total |
|---|---|---|
| **Total Project Costs** | **$9,675,629** | **100.00%** |
| **Project Sources** | | |
| Projected Bank Loan | $3,404,489 | 35.19% |
| Net Condo Sales Proceeds | $3,688,600 | 38.12% |
| Required from Developer | $2,582,540 | 26.69% |
| **Total Sources** | **$9,675,629** | **100.00%** |

| Projected Internal Rate of Return | Revised | Prior |
|---|---|---|
| With NRA and IRB incentives | 7.43% | 7.94% |
| With NRA – No IRB | 6.77% | 7.23% |
| With IRB – No NRA | 6.12% | 6.36% |
| With No Incentives | 5.58% | 5.78% |

# Conclusion

- **NDC's revised analysis concludes that projected benefits for the proposed mixed-use project at 815 Vermont Street - including the requested NRA and IRB incentives – provide the Developer with a reasonable 7.43% Internal Rate of Return on the equity needed to close the gap between anticipated project costs, available debt and projected condominium sales proceeds.**

# For more information

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