

To:	Julie Spears, City of Madison Community Development Division
From:	Mark Binkowski, Development Partner for St. John's
Date:	October 24, 2023
Re:	Request for Additional Funding for St. John's Development

Dear Julie,

St. John's efforts to redevelop its property to create affordable housing began in earnest in Spring 2020 when St. John's started searching for a development partner. For the last three years St. John's has worked to make its vision a reality. The project has continuously evolved throughout this process.

In July 2022 an application was submitted to the City of Madison's Affordable Housing Fund. At that time the project included 22 units for those earning less than 30% of AMI, 58 units at 50% AMI and 28 units at 60% AMI, for a total of 108 units of affordable housing. The construction cost for the residential units was estimated at \$27,984,427. Since then, the number of affordable units has increased, while providing more units at the 30% AMI level. The project currently calls for 110 units of affordable housing, with 26 units at 30% AMI, 52 units at 50% AMI and 32 units at 60% AMI.

The project's financial feasibility has been negatively impacted by two larger trends that have affected all real estate development – construction costs and interest rates. Unfortunately, the affordable housing units that are most desperately needed are least able to absorb these impacts.

Construction costs have continued to increase. St. John's has been working closely with its construction partner, JP Cullen, and experienced architect, Potter Lawson, to control costs to the extent possible by making informed design decisions. Despite those efforts, the most recent construction pricing has construction costs for the residential units at \$29,866,019. That is an increase of \$1,881,592.

Compounding this problem has been the increase in interest rates. The project has signed a term sheet with Piper Sandler to provide permanent financing and to facilitate placement of the bonds. After accounting for the interest income earned as a funding source that the Piper Sandler deal provides for, increased interest rates raised the construction loan interest cost by \$426,857.

Lastly, the project did not secure FHLB AHP funds. This was originally expected to provide an additional \$900,000 in funding. St. John's was unable to identify a viable participating bank to serve as the sponsor, without which the project would not score competitively.

Taken together these changes have increased the funding gap to a level that St. John's is unable to fill without the additional support of the City of Madison and Dane County. This support is critically important to helping St. John's achieve its mission of helping Madison's working poor by creating a significant number of new affordable apartments in the heart of Madison's downtown.

St. John's was originally intending to close and break ground in November / December of this year. As a result of the increased gap the decision has been made to delay the targeted closing to spring of 2024. This will provide a few months of additional timing to allow St. John's to identify the sources necessary to close the funding gap. JP Cullen is currently anticipating an 18-month construction period, therefore completed units would be delivered in fall of 2025.

- Mark Binkowski