Community Development Authority
MCRF Loan Report
July 12, 2012

Borrower: Urban Land Interests

Project:

Urban Land Interests ("Borrower") proposes to construct an in-fill, 116-unit market-rent apartment building on former industrial property located at 727 Lorillard Court, in the south west quadrant of land bounded by Proudfit, Doty and Main Streets (Fig. 1). Total project cost is estimated at approximately $22,916,000 ("New Project").

Fig. 1

Borrower proposes to repay an existing interest-only $500,000 MCRF loan disbursed to Tobacco Warehouses, LLC in 2005 and requests that the $500,000 principal repaid to the CDA be recycled to fund a new MCRF loan to the New Project, evidenced by a 5-year note at 3.5% interest, payable interest-only. Borrower intends to commence construction in 2012 to be completed in July of 2013.Estimated value upon completion and stabilization is $22,858,000 (Fig 2).

Proposed Sources and Uses	
Bank Loan	$18,300,000
MCRF Loan	**500,000**
Equity	4,116,000
Total Sources	$22,916,000
Uses	($22,916,000)
Loan to Value Calculation	
Estimated Value	$22,858,000
Total Loans (incl. MCRF)	$18,800,000
Estimated Loan to Value	82%

Fig. 2

Policy Considerations:

MCRF Policy establishes that the maximum loan not exceed $250,000. Making a loan in the requested amount would require a policy exception.

Analysis:

The New Project is a higher-end market apartment with rents ranging from $1.70/SF to $2.10/SF--a healthy rent figure. Expenses are in line with market. Parking is provided beneath the building and is not a cause of gap. Land costs of $25,000/unit are toward the higher end of feasibility for an apartment development. Hard and soft costs are in line with industry standards.

The bank loan is sized at 80% loan to value, assuming cash flow coverage of 1.31 and a cap rate of 6.5%. The cap rate may be slightly aggressive based upon recent experience. Total loan to value, including the MCRF loan is 82%--well below the CDA's 90% LTV standard. Borrower is sophisticated, experienced and has a large, successful and diverse real estate portfolio. Borrower proposes that gap is caused by a leverage shortfall, assuming an 8% cash-on-cash return on $4M of equity. This suggests that the proposed $500,000 MCRF loan is covering an equity shortfall.

However, Borrower is donating a $1M developer fee as part of the equity investment. If truly donated, it would not be included in cost or financed. By reducing the project cost by the development fee amount, the actual equity exposure decreases, cost decreases, and equity return increase to about 12%, internal rate. With this adjustment, the actual capital need is about $400,000. Analysis of Borrower's cash flow indicates the project can afford modest principal and interest payments on $400,000 and still achieve a debt service coverage ratio of about 1.25. The City would thereby retain $100,000 for the MCRF fund and accelerate repayment on the $400,000 of loaned principal.

<u>Sources and Uses (Adjusted)</u>	
Bank Loan	$18,300,000
MCRF Loan	**400,000**
Equity	<u>3,066,000</u>
Total Sources	$21,766,000
<u>Uses</u>	($21,766,000)
<u>Loan to Value Calculation</u>	
Estimated Value	$22,858,000
Total Loans (incl. MCRF)	$18,700,000
Estimated Loan to Value	82%

<u>Recommendation:</u>

Contingent upon Borrower repaying $500,000 of principal to the City, and provided that the CDA board finds the MCRF Loan request is necessary and appropriate for a MCRF Policy exception, staff recommends either of two options: a $400,000 loan to Borrower evidenced by: 1) a 5-year note at 5% interest, fixed or 2) a 3-year note at 3.5% interest, fixed--either loan option to be paid quarterly, principal and interest.

Borrower shall provide the City with a second mortgage interest in the Property. The City shall receive the personal guaranty of Thomas Neujahr and Brad Binkowski in the amount of the MCRF loan. MCRF Loan funds shall be disbursed upon completion of construction ("end loan") as evidenced by an occupancy permit and evidence of compliance with all applicable City ordinances. Prior to loan disbursal, Borrower shall provide the City with a current appraisal of the Property that shall demonstrate, to the City's satisfaction, that all liens and mortgages against the Property, including the MCRF loan, shall not exceed 90% of the Property's fair market value.