

City of Madison TIF Report
Arbor Gate Project (Arbor Gate Development, LLC)
July 10, 2007

Executive Summary

The Project gap is caused by the high cost of land acquisition, relocation and demolition. The total of these land-related costs amounts to about \$49/SF--the average land acquisition cost being about \$32/SF. All other project costs, including hard construction, parking construction (\$7,000 per stall) are consistent with costs for this style of commercial office development. However, tenant improvement costs are slightly higher due to specialized costs attributable to the medical imaging equipment and medical clinical functions in the Project. These extra costs do not represent a significant drag on the project in comparison to land costs, and are within an acceptable range for this type of specialized tenant.

Developer has foregone taking a developer fee as a measure to mitigate higher costs. Developer is also a long-term investor, whereby long-term cash flow benefits from the project are more of a primary financial objective than taking such fees in the short run.

The Project conforms to several TIF Policies as indicted in the TIF Policy Conformance section below. In particular, the TIF assistance recommended is 47% of the present value of tax increments, which is below the 50% Rule in TIF Policy. Developer has demonstrated a clean and thorough application and has maximized financial leverage from sources other than TIF including private equity investment, bank financing and the New Markets Tax Credit program. By utilizing this program the participating lenders are encouraged to loan more funds to the project, whereby the Project leverages about 126% loan to value. A typical bank loan to value for this type of project ranges up to about 80%.

Staff is recommending a pre-lease provision of 50% of the approximately 174,000 SF commercial and medical clinic space within the building, or such percentage as is evidenced by the primary lender commitments provided to Developer prior to disbursing TIF funds to the Project. As indicated in the Sources and Uses (Gap Analysis) section below, staff is satisfied that the gap represents a shortfall of funds caused by the land acquisition, relocation and demolition cost and recommends a TIF loan in the amount of \$2,700,000 to the Project.

Project Data

Land Uses (rounded)

Medical Offices, Clinics, Imaging	70,000 SF
Commercial, Retail	25,000SF
Other Office	<u>105,000 SF</u>
Total	200,000 SF

Parking Not less than 750 stalls

Estimated Value @ Stabilization **\$30,552, 800**

TIF Available @ 50% **\$2,877,000**

PROJECT COST

	<u>Proposed</u>
Land Acquisition	\$ (6,928,000)
Relocation	\$ (1,517,000)
Demolition/Remediation	\$ (2,007,000)
	<u>\$ (10,452,000)</u>

Hard Cost

Ofc. Construction	\$ (16,800,000)
Parking	\$ (5,478,000) Note: \$7,000 per stall
Tenant Improvements	\$ (10,196,000) Note: Medical clinic, imaging lab specialized costs
	<u>\$ (32,474,000)</u>

Soft Cost \$ (4,224,000) Note: No developer fee taken. Long-term investor.

TOTAL PROJECT COST **\$ (47,150,000)**

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Sources and Uses (Gap Analysis)

Equity	\$ 3,413,000	
Debt	<u>\$ 41,038,000</u>	
Total Sources	\$ 44,451,000	Note* Project loan is 126% of value, utilizing tax credits
Less: Total Project Cost	<u>\$ (47,150,000)</u>	
Gap	\$ (2,699,000)	
TIF Recommendation	<u>\$ 2,700,000</u>	

TIF Policy Conformance

TIF Policy	Description	Project Conformance
Objective 2(a), 3(a)	Improves the public infrastructure for neighborhood revitalization and economic development	TID #35 is budgeted to provide approx. \$1.6 M of public improvements.
Objective 2(c)	Provide the full range of basic neighborhood goods, services and employment opportunities	Implements health care services, commercial and retail services and employment for the area.
Policy 1.1 (e)	Project is eligible as business attraction, retention or expansion.	Retains existing businesses in the new development, attracts new medical and retail uses.
Policy 3.1 (b)	Equity is greater than TIF assistance provided per policy	Developer injecting \$3.4 M of equity vs. \$2.7 M of TIF assistance.
Policy 3.1 (c)	TIF assistance is below the 50% Rule threshold.	TIF assistance is 47% of present value of tax increments generated by the project.
Policy 3.1 (a)(2)	Every financial alternative is to be exhausted prior to the use of TIF...	High loan to value ratio (126%) using tax credits, demonstrates effective use of other programs prior to seeking TIF assistance.