

MEMORANDUM

TO: Brad Murphy, Planning Director

FR: Joe Gromacki, TIF Coordinator

DATE: May 4, 2010

SUBJECT: EDGEWATER HOTEL: IMPACT OF CONDOMINIUMS ON GAP

On January 28, 2010 I gave a preliminary presentation to the Common Council concerning the Edgewater Project. During the presentation, an alder asked whether the proposed condominiums were included in the City's value estimate for the project. I responded that neither the cost nor the value of the condos were included in staff's preliminary estimates. In addition, as the condo sales prices would at least equal their construction cost (i.e. a "wash) condominiums did not contribute to the proposed \$16 million gap. Further, TIF Policy prohibited assistance to luxury condominium projects, so that element of the project would have to be funded without TIF anyway.

I added that in staff's estimation, many, if not all the condominium units would likely end up as hotel suites, which in the end would add value to the project—which would be beneficial to the City. If the condos sold, they could add perhaps \$7 to \$10 million to the value—also beneficial to the City,

Therefore, staff viewed the project as a hotel project, not a hotel and partial residential condominium. In a presentation graphs entitled "Impact of Design Changes on Cost, Value" and "Impact on Investment, Gap", I pointed out that the project was financially infeasible without the total number of hotel units proposed, i.e. an eight-story 192-room project.

On April 1, 2010 I received a letter from Mr. Fred Mohs, with my aforementioned presentation graphs attached, that misconstrued the January 28, 2010 presentation to mean that the project would be feasible as a six-story project. I believe that the intent of the letter was to convince the Landmarks Commission and perhaps Plan Commission that the project could be reduced without financial implications.

As the attached graphs (with my postscript added) clearly indicate, this is not the case. The impact of reducing the project to a six-story hotel would reduce its value to approximately \$35 million from \$44.8 million. This would result in less equity and loan proceeds, increasing the gap to \$33 million and reducing profitability from about 10% to 3.5%. In short, as a six-story hotel, the Developer would not construct the project nor would the City provide financial assistance.

I hope that this clears up any misunderstanding that Mr. Mohs' letter may have caused. Please share this with the appropriate committees and planning staff for their consideration.

Impact of Design Changes on Cost, Value

	8 story 192 Rooms	Six Story 156 - 160 Rooms	1 Story 82 Rooms
Cost			
Land & Demo	\$ (9,000,000)	\$ (9,500,000)	\$ (10,000,000)
Hard	\$ (41,750,000)	\$ (40,050,000)	\$ (32,900,000)
Parking	\$ (4,900,000)	\$ (4,900,000)	\$ (4,900,000)
Soft	\$ (8,950,000)	\$ (9,500,000)	\$ (8,600,000)
Residential	\$ (7,500,000)	\$ (3,750,000)	\$ -
Public Access	\$ (17,900,000)	\$ (17,900,000)	\$ (17,900,000)
Total Cost	\$ (90,000,000)	\$ (85,600,000)	\$ (74,300,000)
Estimated NOI	\$ 4,131,000	\$ 3,290,000	\$ 2,054,000
Estimated Value	\$ 44,800,000	\$ 35,000,000	\$ 21,000,000
Coverage @ NOI	1.73	1.01	0.93
Profit @ 20 - 30 Yrs	10.2%	3.5%	-8.6%

Comments

Assuming loan and equity stay constant, debt coverage decreases, bank not likely to lend. Investor profit decreases, investors likely to pull out or reduce investment

Postscript: Value and profit are reduced by the loss of two stories

Impact on Investment, Gap

	8-Story	6-Story	1-Story
NOI	\$ 4,131,000	\$ 3,290,000	\$ 2,054,000
Value	\$ 44,800,000	\$ 35,000,000	\$ 21,000,000
Debt Coverage Ratio	1.73	1.73	1.73
Desired Equity Return @ 30 yrs	10%	10%	10%
Total Cost (Uses)	\$ (90,000,000)	\$ (85,600,000)	\$ (74,300,000)
Sources of Funds	8-Story	6-Story	1-Story
Max. Equity @ 10% IRR - Hotel	\$30,975,000	\$ 20,000,000	\$ 10,000,000
Loan - Hotel	\$30,125,000	\$ 22,700,000	\$ 14,184,000
Developer Share of Public Acc	\$5,400,000	\$ 5,400,000	\$ 5,400,000
Residential Loan & Sales	\$7,500,000	\$ 3,750,000	\$ -
Total Sources	\$74,000,000	\$ 51,850,000	\$ 29,584,000
Gap	\$ (16,000,000)	\$ (33,750,000)	\$ (44,716,000)

Postscript: With value reduction, loan and equity are reduced, and gap increases.