Overview of CRA Public/Private Development , Parking Lot 10, and Gainesville Greens

June 16, 2008

Objectives

- Provide basic understanding of a public/private development that involves public land and private development
  - Emphasis is on developments within the boundaries of the Community Redevelopment Agency's areas
    - Fifth Ave/Pleasant Street
    - Eastside
    - Downtown
    - College Park/University Heights

- Highlight the City Parking Lot #10 project (now known as Gainesville Greens) in the context of the development framework

- Provide context for the recommendations in Gainesville Greens Agenda Item

What are the components of a CRA public/private partnership?

Development Framework

- We'll use this generic framework to help guide this presentation

Development Framework

Land & Option

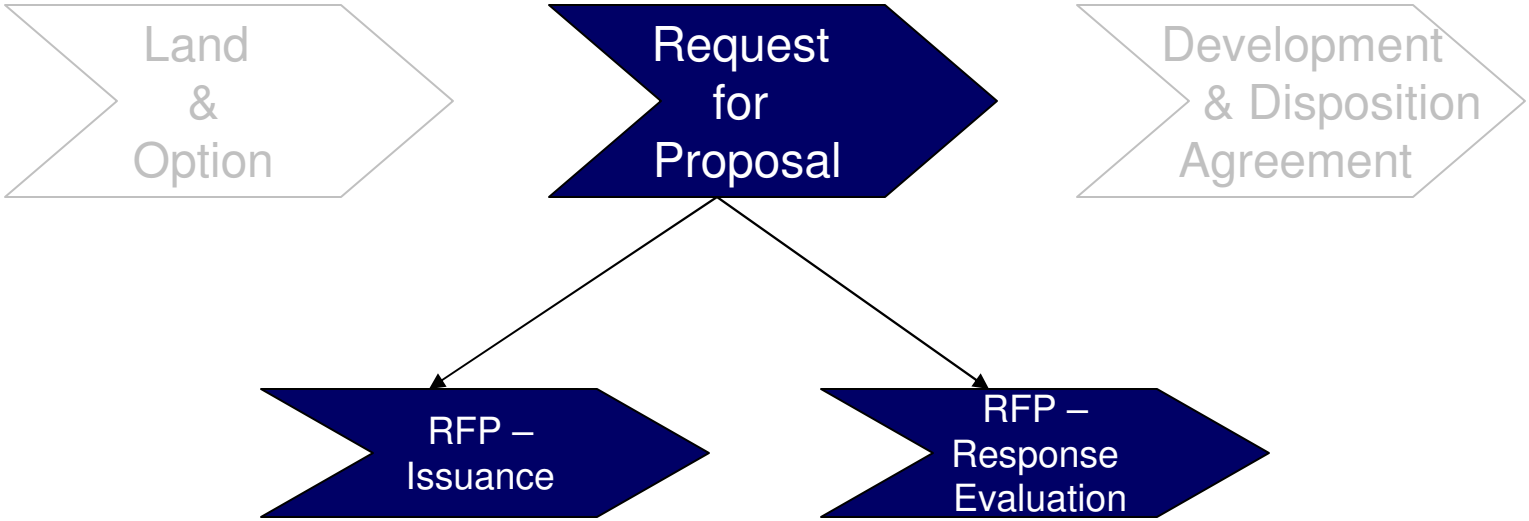
General Overview

- The development process begins when the City of Gainesville has an underutilized asset that has potential for redevelopment
- If property is owned by the City, the City assigns the option to the CRA with some conditions, including:
  - Minimum price for land
  - Uses
  - Term of option

Parking Lot #10

- CRA approached City of Gainesville to encourage redevelop of **city parking lot #10** on the corner of SW 2nd Ave and SW 1st Street
- City assigned option to CRA (June 2005) with some conditions:
  - Fair market value for land
  - Mixed Use

Development Framework



Request for Proposal – Issuance

Once it is clear that the CRA will be assigned the option…

General Overview

- CRA develops a Request for Proposal, which includes, but is not limited to:
  - Information about the property and general information about market
  - Type of development sought on optioned property (i.e. Residential, Commercial, Hotel, Mixed Use)
  - General Terms & Conditions
  - Selection Criteria
  - Submission and Response Timeline

Parking Lot #10

- CRA Issued RFP in June 2005
- Requested a Qualified Developer to successfully redevelop, construct, and own or market a multi-story mixed-use, residential and/or hotel
- Financially feasible and architecturally compatible projects not less than 5 stories, no more than 12 stories

- Selection Criteria
  - Scope and quality of the design (35 pts)
  - Experience and success of projects similar to proposed (25 pts)
  - Organization, financial capacity, and business references (15 pts)
  - Experience with urban redevelopment (10 pts)
  - Taxable value of completed project (10 pts)
  - Schedule of completion (5 pts)

Request for Proposal – Response Evaluation

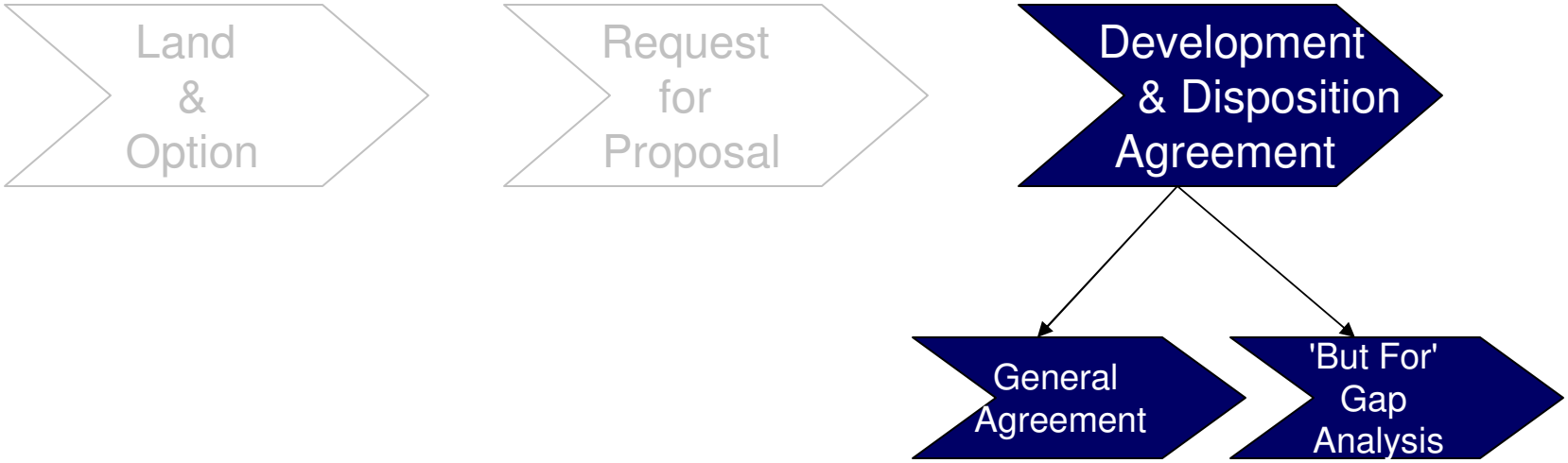
General Overview

- Developers submit responses outlining:
  - Who they are?
  - What they build?
  - Specific plan for RFP site
  - What they need? (i.e. incentives, etc.)
- Respondents may have an opportunity to present their proposals in person (also known as “Oral Presentations”)
- Responses are independently evaluated and ranked by
  - CRA Staff
  - CRA Citizen Advisory Board
  - CRA Board
- Top-ranked respondent is awarded the project and enters into negotiation with the CRA for a Development and Disposition Agreement

Parking Lot #10

- Four developers responded to RFP
  - GG Development Associates
    - 12 stories, 134 residential condos with 14 units for affordable housing
    - Built to LEED standards, increased energy efficiency
    - Central plaza to serve western downtown, address SW 2nd Ave, offer convenience parking for 43,430 ft of retail
    - Requested 60% TIF for 15 years
  - AMJ
    - 12 stories, 88 residential condos, 60,700 ft2 office/retail space
    - Requested 80% TIF for 15 years
  - Windsor-Aughtry
    - 5 stories, 40 residential condos, 120 hotel rooms, 6,000 ft retail space
    - Requested 80% TIF for 15 years
  - City Square
    - 89 residential condos, 120 hotel rooms, 10,400 ft retail space
    - Requested significant up-front incentives
- GG Development Associates awarded project, known as “Gainesville Greens” (September 2005)

Development Framework



Development & Disposition Agreement – General Agreement

General Overview

- CRA and Developer negotiate a Development & Disposition Agreement (DDA)
- A DDA is a consensual, binding contract between the developer and the CRA, which outlines:
  - Façade Easement Requirements
  - Performance Benchmarks
  - Eligible Reimbursable Expenses
  - Base Year Value for Tax Increment
  - Covenants
  - Building Materials Requirements
  - Quantified financial incentive for the 'But For' Gap
- The CRA's assigns its option on the property to the developer simultaneously as the DDA is executed

Lot #10 (now Gainesville Greens)

- Development Agreement executed (October 2006)
  - 'But For' gap quantified at $6.3M Present Value (PV) based on a 6.75% discount
  - To be paid through TIF reimbursement (recapture) at 75% for 20 years
- Developer requests an extension to the option on Lot 10 from City
  - City granted 12 month extension (June 2007)
- CRA approves amending the DDA to reflect the 12-month extension (June 2007)
- Developer requests an additional extension to option on Lot 10 and requests to make change in use from residential condos to residential apartments to be converted to condos at a future date (April and May 2008)
- Request 'But For' gap incentive of $1.6M PV based on 6.84% discount rate

Development & Disposition Agreement - 'But For' Gap Analysis?

- **What is a 'But For' Gap?**
- In short, it means 'But For' the incentive/investment by the CRA, the project would not be financially feasible for the developer
- Real developers/investors require a normal rate of return. Any return less then the normal rate generates a “gap”
- The measure of the “gap” is important because the only funding that occur is to close this gap
- Typically, the gap is generated from two sources:
  - Project cannot produce market levels of sales or lease rates
  - Costs to develop the property are extraordinarily high due to construction costs, land assembly or other factors
- This gap is quantified and included in the DDA
- ***To understand how the 'But For' gap is determined, some basic understanding of the financial analysis is required***

Basic Elements of Financial Analysis

Income Producing Asset (Investor Owns)	Build & Sell Asset (Investor Sells)
Construction Costs	Construction Costs
Net Operating Income (NOI)	Net Profit
Capitalization Rate	Return on Investment
Debt/Equity Structure	Debt/Equity Structure

Basic Elements of Financial Analysis – Construction Costs

Income Producing Asset (Investor Owns)

Build & Sell Asset (Investor Sells)

Construction Costs

Construction Costs

1. Land Costs

- **Price of Land**
- **Closing Costs**
- **Environmental Assessments**
- **Other Associated Fees**

2. Hard Costs

- **All of the costs for the visible improvements**
- **For example, grading, excavation, concrete, framing, electrical, carpentry, roofing, and landscaping**
- **Also known as "brick and mortar" costs.**

3. Soft Costs

- **Costs that you cannot visibly see**
- **Architect's fees, engineering reports and fees, appraisal fee, building permits, assessments, sewer and water hook-up fees, etc.**
- **Construction period financial costs, such as construction period interest and loan fees**
- **A build and sell asset may also have soft cost such as sales commissions**

4. Contingency Reserve

- **Builds in a cushion in the commercial construction budget to cover cost overruns.**

Basic Elements of Financial Analysis

Income Producing Asset (Investor Owns)

Net Operating Income

Gross Rents

- **# of units multiplied by lease rates (expressed per unit or per sq ft)**

Minus Vacancy & Concessions

- **To account for units or sq ft that will not be rented during the year**
- **Also for promotions (i.e. rent discounts, etc.)**

Minus Operating Expenses

- **Taxes, Insurance, Management, Maintenance, Utilities, and Repairs**

Minus Operating Reserve

- **Reserve for future replacement of Carpet/Flooring, Appliances, Landscaping, Remodeling, and Exterior**

Build & Sell Asset (Investor Sells)

Net Profit

Sales

# of units multiplied by sales price (expressed per unit or per sq ft)

Minus Construction Costs

Basic Elements of Financial Analysis – Key Financial Measures

Income Producing Asset (Investor Owns)

Capitalization Rate

Net Operating Income

Divided by

Construction Costs

=

CAP Rate

- The CAP rate is a measure of the ratio between the cash flow produced by an asset and its capital cost
- Developers/Investors normal rates of return are generally expressed at a CAP Rate

Build & Sell Asset (Investor Sells)

Return on Investment

Net Profit

Divided by

Construction Costs

=

Return on Investment

- ROI is the ratio of money gained or lost on an investment relative to the amount of money invested
- Developers/Investors normal rates of return are generally expressed as an ROI

The difference between the developer's normal (or required) rate of return and the actual rate of return (without incentives), converted to dollars determines the "but for' gap

Basic Elements of Financial Analysis

Debt/Equity Structure

- CAP Rates and ROI do not tell the whole financial story of an investment or project
- Most investors do not invest 100% of their cash into deals, they borrow money (debt) and make up any difference between money needed to the project and debt available with cash (equity)
- The capital structure (i.e. how much debt is borrowed vs. how much equity is invested) plays a vital role in evaluating a deal
- Considerations for Income Producing Assets
  - Debt service is not included in the calculation of NOI because different borrowers (investors) can have different financing options and terms
  - A project can have a positive CAP rate and still have a negative cashflow if the investor can not secure financing at a rate low enough
  - Therefore, to fully analyze a deal, the investor's accessibility to debt and the terms of the debt must be considered
  - Debt Coverage Ratio (DCR) is a measure that lending use to determine the how much of a investment's NOI covers the debt service (DCR = NOI divided by Debt Service)
  - In today's financial environment, lenders typically look for DCRs greater than 1.20
- Return on Equity (ROE)
  - Because investors use a bank's money, their true cash investment is the equity (although they are still required to repay the debt)
  - Understanding the return on the equity is an important measure
  - Net Profit (if Sell Asset) or Cashflow (if Income Asset) divided by Equity Invested

What is Tax Increment how is it calculated?

Time

Vacant Lot / Underutilized parcel /building, etc.

Taxable Value = $50,000
Taxes = $1,167
(Base Year Values)

Taxable Value = $250,000
Taxes = $5,580
Incremental Tax Value = $200,000
Incremental Taxes = $4,413
Tax Increment = $2,830

Calculating Tax Increment

1. Determine base year tax values
2. Determine post-construction tax value
3. The difference is the **Incremental Tax Value**
4. Multiply the Incremental Tax Value by the **eligible** millage rates to get to the **Tax Increment**
    1. Only the County General and City General millage rates are eligible
    2. School, Bonds, Library, St John's Water millages are not eligible
    3. The current millage eligible for Tax Increment is 11.9012 (County 7.6468 City 4.2544)

What is TIF and how is it calculated?

- Tax Increment Financing (TIF) is a tool to use future gains in taxes (Tax Increment) to finance the current improvements that will create those gains.
- It's a commitment of future tax revenues to finance current investment
- TIF is paid to developer in future years as a **reimbursement**
    - TIF payments are only made after taxes on the subject parcel(s) have been paid

$$ Available for TIF

1. Multiply **Tax Increment** by 95% to determine funds available for **Tax Increment Financing**

Gainesville Greens

- Analysis of Existing Agreement
  - Owner-occupied condo development with 1st floor retail
- Analysis of Current Proposal
  - Initially build as an apartment complex with 1st floor commercial retail
  - Convert to owner-occupied condos at undefined period in the future, but not to exceed 10 years
- Additional Points
  - All assumptions for this analysis came from the developer, with the exception of the following:
    - Adjusted TIF calculation to reflect eligible millage rates
    - Present values calculations were performed by CRA staff in the analysis of the current proposal
  - This is an objective analysis of the Gainesville Greens deal; it does not draw conclusions nor challenge any of the developer's assumptions

Gainesville Greens – Existing Agreement

The existing DDA between CRA and Gainesville Greens to build and sell condos has a 'but for' gap of $6.3M NPV based on a build and sell asset and the following financial analysis:

Construction Costs

$59.5M
- **$ 1.1 M – Land**
- **$12.7 M – Soft Costs**
- **$45.6 M – Hard Costs**

Net Profit

$2.2M

($61.7M in Sales minus $59.5) - w/o incentives

$8.6M* (w/ TIF incentive)

($2.2M plus 6.3M in TIF recapture)

Return on Investment

3.7% (w/o incentives)

14.5% (w/ TIF incentive)

Post-Construction Taxable Valuable

$46.9M

Present Value TIF Recapture

$6.3M

Estimated paid out schedule

Year	TIF Recapture (@75% of TIF with 3% Annual Growth
1	$465,798
2	$479,772
3	$494,165
4	$508,990
5	$524,260
6	$539,988
7	$556,187
8	$572,873
9	$590,059
10	$607,761
11	$625,994
12	$644,773
13	$664,117
14	$684,040
15	$704,561
16	$725,698
17	$747,469
18	$769,893
19	$792,990
20	$816,780
Total	**$12,516,167**

*Excludes Enterprise Zone Rebates, a Non-CRA incentive

Gainesville Greens – Analysis of Current Proposal

Initially build Gainesville Greens as a rental apartment development and convert to condo at an undefined point in the future, not to exceed 10 years

As Rental Apartments

Construction Costs

$34.5M

- **$ 1.2M – Land**
- **$ 4.8M – Soft Costs**
- **$28.2M – Hard Costs**
- **$.3M – Other Costs**

Net Operating Income

W/O TIF

$2.22M

- **$1.85M – Apartment NOI**
  - **$3.03M – Gross Rents & Other Inc**
    - Avg Monthly Lease Rates

1BR	$1,333
1BR Aff	$539
2BR	$1,854
2BR Aff	$476
3BR	$2,470

    - Other Income

Premiums	$100k
Other Rev	$25k

  - **($.204M) – Vacancy**
    - **7% Vacancy Factor**
  - **($.931M) – OPEX**

Mgt Fees	**$50k**
Admin	**$57k**
Salaries	**$144k**
Maint	**$185k**
Utilities	**$64k**
Insurance	**$115k**
Taxes	**$304k**
Contig	**$12k**

  - **($.054M) – Reserve**

Exterior	**$15k**
Mechanical	**$11k**
Equipment	**$23k**
Components	**$5k**

- **$.37M – Commercial NOI**
  - **$27.93 per Sq Ft**

$2.36M

With TIF

- **$.136M – @ 75% TIF***
  - **$182,516 Annual Tax Increment**

*TIF calculation on next slide

Gainesville Greens – Analysis of Current Proposal cont'd

As Rental Apartments

Capitalization Rates

6.44% (w/o TIF)

6.84% (w/ TIF)

Debt/Equity Structure

1.15 Debt Coverage Ratio
$25.7M – Maximum Loan Amount (74.5%)
$ 8.8M – Required Equity Investment (25.5%)
$ 2.05M – Annual Debt Service

Taxable Valuable

$16.1M

Tax Increment

Taxing Authority	Millage Rate	Tax Amount	TIF Eligible
County General	7.6468	$ 123,443	$ 123,443
City of Gainesville	4.2544	$ 68,679	$ 68,679
Total Millage and Taxes	22.318	$ 360,282	$ 192,122
			$ 182,516 @ 95%

Present Value TIF Recapture

$1.0M – @ 75%, 1% growth, for 10 years, 6.84% discount

Cash Flow

w/o TIF

	Year 1
Commercial NOI	$ 370,508
Rental NOI	$ 1,851,813
TIF Subsidy	
Total NOI and TIF Subsidy	**$ 2,222,321**
Debt Service	$ 2,052,000
Proceeds from Conversion	$ -
Net Cashflow	$ 170,321

w/ TIF

	Year 1
Commercial NOI	$ 370,508
Rental NOI	$ 1,851,813
TIF Subsidy	$ 136,887
Total NOI and TIF Subsidy	**$ 2,359,209**
Debt Service	$ 2,052,000
Proceeds from Conversion	$ -
Net Cashflow	$ 307,209

Return on Equity

1.94% (w/o TIF)

3.49% (w/ TIF)

Gainesville Greens – Analysis of Current Proposal cont'd

Initially build Gainesville Greens as a rental apartment development and convert to condo at an undefined point in the future, not to exceed 10 years

Construction Costs

$34.5M

- **$ 1.2M – Land**
- **$ 4.8M – Soft Costs**
- **$28.2M – Hard Costs**
- **$.3M – Other Costs**

Net Profit

@ Conversion to Condos – assumes conversion in Year 10

$18.2M

- **$49.5M Proceeds from Sale**
- **($31.3) Construction Costs****

Worth **$9.4M** in 10 years @ 6.84% discount

- **$44.8M - Proceeds from Condo Conversion Sales**
  - **162,733 sqft sold @ $275/sqft**
- **$ 3.7M - Sale of Commercial**
  - **$2.36M NOI**
  - Divided by
  - **10% CAP***
  - *Assumes investor would purchase NOI at @10% CAP Rate
- **$ 1M New Market Tax Credits**
- **$8.8M Equity Repayment**
- **$22.5M Debt Repayment**

Outstanding loan balance after 9 years of amortization

Gainesville Greens – Analysis of Current Proposal cont'd

Return on Investment (ROI)

27% (on discounted profit)

54% (on non-discounted profit)

Return on Equity (ROE)

107% (on discounted profit)

211% (on non-discounted profit)

Post-Conversion Taxable Valuable

$>46.9M

@ Conversion to Condos – assumes conversion in Year 10

Takeaways

- The financial value of this deal for developer is highly dependent on two things 1) Conversion to owner-occupied condos 2) how long it takes for this conversion to happen
  - As a rental asset, the CAP rates are 6.84% with TIF and 6.44% without TIF, with returns on equity of 3.49% and 1.94% (with and without TIF respectively)
  - Once the units are converted to condos, the returns are 27% ROI and 107% ROE, given a conversion in

- Likewise, the land, as owner-occupied condos use, will provide much higher tax increment revenues than rental apartments use

- Construction costs have decreased by ~$25M between existing agreement and current proposal
  - +.1M Land Costs
  - -$7.9M Soft Costs
  - -$17.4M Hard Costs
  - +.3M Other Costs

- Present Value of requested TIF in current proposal is ~$1M (discounted for 10 years), $5.6M less than the TIF in the existing agreement (discounted for 20 years)

Recommendations

- Do not approve change in use to rental apartment and authorize staff to reissue RFP
  - **Recommendation #1** - Recommend to City Commission (CC) not to extend the option

or

- Approve the change in use to rental apartments and amend DDA to provide TIF up to 10 years or until conversion to owner-occupied condos, whichever occurs first. If not converted to owner-occupied in 10 years, then developer repays TIF to CRA
  - **Recommendation #2** - Recommend to CC extend option 6 months that incorporates performance benchmarks and conditions setforth in recommendation
    - This recommendation requires waivers from RFP respondents

or

- Approve the change in use to rental apartments and amend DDA to not provide TIF
  - **Recommendation #3** - Recommend to CC extend option 6 months that incorporates performance benchmarks and setforth conditions
    - This recommendation requires waivers from RFP respondents

or

- Do not approve the change in use to rental apartments and amend DDA, with no changes to existing TIF agreement
  - **Recommendation #4** - Recommend to CC extend option 6 months that incorporates performance benchmarks and conditions setforth in recommendation