

AMJ inc.

of Gainesville

7 July 2006

Ms. Kate Parmalee, Manager
Gainesville Community Redevelopment Agency
The Commerce Building
300 E. University Avenue, Suite 240
Gainesville, FL 32601

Re: Camden Court Apartments Redevelopment Incentive Program Grant

Dear Kate:

Pursuant to your request and in accordance with the Quick Contract Agreement executed 30 June 2005, please find attached my review of the College Park / University Heights Redevelopment Incentive Program application for the Camden Court Apartments.

The Camden Court application consists of a cover letter, architectural rendering of the proposed project, and seven tables of financial analyses and forecasts. There is a paucity of supporting detail to give credence to either the cost of constructing or operating the project. In particular, both the construction costs estimates and the recurring real estate tax and insurance costs appear to be high, making it marginal at best for this project to stand on its own as rental apartments even after the anticipated incentive grants.

It is recommended that the application be returned to the developer with instructions to clarify the costs in question and to provide sufficient detail in the form of a preliminary site plan, floor plans, elevations, and other appropriate construction documents necessary to show the so type and quality of construction that is intended. Without these clarifications and additional detail, it is impossible to recommend the award of a CRA incentive grant at this time.

The report attached to this letter provides amplification of these and other findings.

Yours truly,

Michael E. Warren
President

**Review of College Park / University Heights Redevelopment Incentive Program
Application For
Camden Court Apartments
dated July 7, 2006**

The Camden Court Apartment development is proposed for the intersection of SW 3rd Avenue and SW12th Street. The site now improved with an older, single story architecturally significant home, which will be renovated to become a seven bedroom rental. In addition, three new three story buildings comprising nine two-bedroom and three three-bedroom units will be added to the property. The total project will include 16,851 square feet of conditioned space and thirty four bedrooms. Four public parking spaces are proposed on an adjacent alley. Neither site nor floor plans have been attached to the application, thus it is difficult to precisely identify how the project will lay out on the ground. The application indicates a scheduled commencement in September 2006, with completion by August 2007.

While there are seven tables of financial analyses and forecasts included, most of which are shown with great precision, the overall application is skimpy on details, particularly relating to the design and construction of the apartments. The Executive Summary lists that the project will include “formalized sidewalks, brick pavers, streetscaping, storm water, and on-street (alley) parking ... enhanced landscaping, hardscaping, building materials, and building design.” Yet there is nothing in the applications to substantiate this – no schematic plans, no material specifications, etc. Besides the financial analyses and forecasts, the only exhibit identifying the project is an architectural rendering which is insufficient to demonstrate the claims of the summary. If more detailed architectural and engineering plans exist, they should have been included with the application; if they don't exist at this time then the accuracy of the detailed cost construction cost estimates are questionable as is the estimated commencement date.

Table One of the application provides a detailed breakdown of apartment sizes and rents. We believe the latter, while on the high side of the market, are achievable for quality units in a prime location such as this, within a block of the UF campus.

Table Two provides a project cost schedule and outlines the requested CRA incentives, totaling \$169,074 over five years. Total project costs are shown to be \$2,893,125 or \$202.80 per square foot of conditioned space for the twelve new apartments (calculated by deducting \$100,000 shown for renovations to the existing home), with an owner's equity of 20% or \$578,625. Most of the identified project costs are within reasonable ranges. The land acquisition cost is shown as \$496,318 or over \$34,000 per apartment unit (assuming that the existing house is equivalent to 2.5 units), which is towards the high end, but not unreasonable on the doorstep of the University. The largest cost is the lump sum construction expense of the new units at \$1,969,444 or \$142.99 per square foot, again high for apartments, but not unreasonable for upscale units. However, without details about the type of construction, interior and exterior finishes, floor to floor height, etc., it is difficult to justify this number.

Tables Three through Six show pro-forma operating statements with and without the requested CRA incentives. All the other numbers in these operating statements seem reasonable except that for real estate taxes and insurance, which are estimated to be \$84,107 or \$4.99 per square foot for the first full operating year. We do not find these numbers credible. We broke this down into separate tax and insurance values using the applicant's tax valuation formula from Table Seven, which yields a property tax assessment of \$2,243,461. Multiplying this by the approximate City of Gainesville overall tax rate of 25.321 mils results in a real estate tax of \$61,364 (\$3.64 per square foot). This would then imply insurance costs of \$22,742 (\$1.35 per square foot). We find this insurance cost quite high and the tax expense unreasonable.

Just as the developer's cost of acquisition (\$496,318) is not representative of the current assessed value of the property (\$111,340), the total estimated project cost of \$2,893,125, upon which the estimated tax payment was based, is not a relevant number for assessment purposes. First of all, since this will be a developer owned and operated property, there is no record of a sale or other transaction at this value. Second, for rental properties the tax appraiser typically looks at typical area values, then adjusts based on size, quality etc. In a quick check, we were unable to find taxes comparable to that estimated in this application.

Similarly, while large increases in insurance costs have been the norm, the value of \$1.35 per square foot derived from the application appears to be excessive, even if the proposed building were of a wood frame construction (which would cast some doubt on the construction cost estimate). A number closer to \$1.00 per square foot might be more reasonable.

We compared real estate taxes on other, upscale residential units in the area and found rates of \$1.99 to \$2.24 per square foot, with the highest value associated with the Woodbury Row condominiums just around the corner from the proposed Sorority Row project. Unfortunately, the certified 2006 tax role is not yet available, and many of the newer, comparable projects in the area are not yet assessed. However, even assuming continued double digit increases in both real estate taxes and insurance, we would estimate that taxes and insurance would be in the \$3.50 per square foot range, significantly lower than that shown in the pro-forma operating statements.

Changes to the taxes and insurance component of the operating statements would have material effects to the return on equity, and a lower tax assessment would imply reductions in the CRA incentives. It is not appropriate for this reviewer to take the time or the expense to re-create more realistic operating statements. Given some of the other questions about costs, it is more appropriate that the applicant redo this. Even so, it is clear that without a significant reduction in overall project cost, these apartments will not be financially feasible without a CRA incentive grant, and may not be only marginally feasible even with a significant grant.

In summary, given the lack of details about the project in the application, and questions about the construction costs and operating expenses associated with the Camden Court Apartments, it is not possible to recommend the granting of CRA incentives. The application should be returned to the developer for additional information and clarifications.