



# City of Lee's Summit

## 2<sup>nd</sup> and Douglas Tax Increment Financing Plan

Financial Analysis | FINAL





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Columbia Capital is an SEC-registered investment adviser and a registered municipal advisor. Columbia Capital provides advice as a fiduciary to its clients.



## INTRODUCTION

DTLS Apartments, LLC, a single purpose Missouri limited liability company (the “Developer”), submitted its “2<sup>nd</sup> and Douglas Tax Increment Financing Plan” dated January 18, 2018 (the “Plan”) to the Tax Increment Financing Commission (“Commission”) of the City of Lee’s Summit, Missouri (the “City”) for consideration. The Plan describes the construction of a 274-unit apartment complex (the “Project”) in the Redevelopment Area (as defined in the Plan), which is located at the northwest corner of SE 2<sup>nd</sup> Street and SE Douglas Street in the City’s downtown area. The Developer is constituted as an active Missouri limited liability company according to the records of the Missouri Secretary of State.

The City engaged Columbia Capital Management, LLC (“Columbia”) to provide a financial analysis (the “Analysis”) of the Plan, including an assessment of the need for tax increment financing incentives. The City did not ask us to review of the blight analysis for the Project.

Tax increment financing (TIF) is a tool that allows a city to identify a defined geographic area within which certain taxes, including *ad valorem* property taxes (through payments-in-lieu-of-taxes, or PILOTs), sales taxes and other revenues, may be captured for a period of limited duration and redirected to the payment or reimbursement of certain eligible project costs.

In Missouri, TIF is limited to a 23-year duration from the effective date of a TIF plan, capturing incremental PILOTs (i.e., those net new taxes created by the development above base year levels) plus all or a portion of other economic activity taxes (EATs) pledged by the City for capture at its discretion, including but not limited to sales taxes and other locally-levied taxes and fees.

The Plan contemplates the capture of 100% of incremental *ad valorem* property taxes for up to full 23 years permitted by statute. It does not contemplate the capture of any other TIF eligible revenues.

In addition to the TIF benefit contemplated by the Plan, the Developer has petitioned the City for a sales tax exemption on construction materials, which the Developer values at \$1.33 million. Columbia concurs with this estimate. Assuming 40% of the \$42.35 million in construction costs are taxable (a typical percentage), our calculated value of the exemption matches the Developer's estimate using the City's current 7.85% effective sales tax rate (state, county and City combined).

The Developer reports a \$53,150,000 million total development cost budget for the Project with the Project being fully complete by 2021. The Developer's request for TIF and sales tax exemption, combined, is estimated at \$9.4 million on a present value basis, or about 18% of total Project costs (also assumed to be a present value figure).

## RELATIONSHIPS

Columbia Capital Management, LLC (the "Financial Advisor") is a registered municipal advisor and serves as the City's financial advisor. The City engaged the Financial Advisor to provide a financial evaluation of the Plan. The Financial Advisor is not now, nor has ever been, engaged by the Developer or its related entities to provide it with similar services. The reader's interests may vary from those of the City's or the Commission's.

## RELIANCE

This Analysis is not a projection of the likelihood of success of the Project proposed in the Plan and as described more fully herein. In preparing this analysis, the Financial Advisor relied upon certain data and information supplied to it by the Developer, contained both in the Plan, delivered to the Commission and provided to it separately.

Except where noted herein, the Financial Advisor has relied upon this data and information without independently verifying the veracity or reliability of such information. The Analysis may not be used, except in the context of the City's review of the Developer's request for TIF and sales tax exemption incentives. The Analysis assumes all components of the Project are developed as described herein.

As with any work of this kind, the Analysis is almost exclusively forward-looking. The reader should note that small changes in modeling inputs could have significant impacts on modeled financial outcomes. The reader must consider this Analysis in light of contractual arrangements that the City would expect to undertake with the Developer to formalize the development components of the Plan and their anticipated timing for completion.

## THE PROJECT

The Project consists of land acquisition, engineering, site preparation, construction of public and private infrastructure improvements to construct a 274-unit apartment complex. There are no retail components to the Project. Exhibit 2 of the Plan includes a depiction of the development plan; however, the Developer did not provide detailed information about the complex and its features.

## DEVELOPMENT BUDGET AND PROJECT COST

The Developer’s project budget included in the Plan shows the following expected total development costs. The large “Other” category of costs includes architecture and engineering fees, interest during construction, a developer fee and other costs. For the purposes of this analysis, we assumed the a Developer Fee of approximately three (3) percent of the Project’s total development costs. Because the Developer Fee inures to the Developer, we do not consider it as a cost of the Project and have reduced the expected costs of the Project accordingly when calculating expected return on investment.

USE	TOTAL BUDGET	TIF ELIGIBLE
<b>Land Acquisition</b>	\$ 2,800,000	\$ -
<b>Site Work</b>		
Infrastructure	\$ 1,500,000	\$ -
<b>Building</b>		
Multi-Family (274 units)	\$ 32,550,000	\$ -
Structured Parking	8,300,000	8,300,000
<b>Soft Costs/Interest/Dev. Fee</b>		
Other	\$ 8,000,000	\$ -
<b>Pre-Adjustment Total</b>	<b>\$ 53,150,000</b>	<b>\$ 8,300,000</b>
<b>Less: Assumed Developer Fee</b>	<b>\$(1,600,000)</b>	<b>\$ -</b>
<b>Adjusted Development Costs (for return on investment calculations)</b>	<b>\$51,550,000</b>	<b>\$ 8,300,000</b>

Please note that should the City grant a sales tax-exemption, the Developer’s estimated cost savings would be \$1,329,790, further reducing the Adjusted Development Costs.

## CAPITAL STACK

The Developer’s financial modeling relies on an assumption of a capital stack comprised of 75% debt and 25% equity, applied against total development costs:

ESTIMATED SOURCES OF FUNDS	
Debt (75%)	\$ 39,862,500
Equity (25%)	13,287,500
<b>TOTAL SOURCES</b>	<b>\$ 53,150,000</b>

The Developer provided a letter of interest from Associated Bank, but that letter was neither a term sheet nor a commitment to lend on the debt component of the financing. The Developer did not provide evidence of its ability to contribute the required \$13 million in equity to the Project. Our analysis assumes both are achievable and forthcoming.

Because the Plan contemplates a pay-as-you-go TIF structure, the Developer will be required to make 100% of the capital stack available prior to or during construction of the Project. TIF incentives will only become available once the Project is complete and incremental tax revenues are generated.

We anticipate the Developer’s lender underwriting will rely on the City’s determination of whether TIF benefits should be conferred to the Project.

## DEVELOPMENT SCHEDULE

The Plan provided us with the following schedule related to its expected completion of the Project:

MILESTONE	EXPECTED DATE
Site Acquisition	Currently Under Contract
Commencement of Construction	2019
Completion	2021

## CONSTRUCTION COSTS AND REVENUE PROJECTIONS

The Developer’s development budget contemplates a cost-per-door of approximately \$180,000 (excluding land acquisition and allocating all Other costs to the apartments). We reviewed this assumption against other Kansas City metropolitan area multifamily projects of which we are aware, including completed projects, projects under construction and projects currently planned. Without details regarding the Developer’s planned fit and finish of the Project, we would expect this project to price between \$160,000 and \$200,000 per door (excluding land) based upon our comparability analysis assuming a mid- to high-end fit and finish. As such, we find the Developer’s cost assumptions reasonable. All things equal, higher construction costs would reduce the Developer’s return on investment.

The Plan includes a ten-year, high-level net operating income (“NOI”) pro forma driving both its conclusion that the Project will be financially successful over that period and that incentives are needed for the Project to proceed (the “But-For Conclusion”). The NOI projections are significant because they are used in the calculation of the Developer’s projected rate of return for the project—a factor critical to assessing the appropriateness of the level of incentives requested.

The Developer assumes the apartment complex will experience a five (5) percent vacancy rate (in-line with recent trends), which would result in 260 apartments leased by 2022. Given the revenue projections provided, rent per apartment would approximate \$1,200 per month, which is, based upon third-party reports regarding the apartment market in the Kansas City metropolitan area, on the high side of comparable rents contingent on the fit,

finish and amenities of the complex. The Developer did not provide detailed assumptions on operating expenditures for the apartments; instead they assumed an operating expense ratio of 25%. We tested this assumption with a company providing accounting services for more than 40,000 apartment units around the country and found it to be consistent with their experience.

## QUANTIFICATION OF INCENTIVES REQUESTED

In order to assess the value to the Developer of the incentives requested, it is important first to try to quantify their value. All financial projections suffer from a very fuzzy crystal ball. The potential end-of-life of the incentives requested for the Project is more than 20 years from now. The risk this uncertainty generally falls mostly to the Developer—that is the reason it demands a rate of return on the Project that substantially exceeds a “risk free” rate of return. The Developer is asking to be reimbursed for the parking structure costing \$8,300,000 (or estimated at \$8,039,380 if a sales tax exemption is granted) as TIF revenues are collected. In addition, the Developer requests the reimbursement of interest on the unreimbursed balance of any of the \$8.3 million cost of the garage at 5.5% per annum, the same rate the Developer projects it can secure for the Project’s long-term financing. Based on the Developer’s revenue projections in Exhibit 6, all TIF eligible costs, including Developer interest, will be paid in 2038; however, the Developer would have until 2043 to be reimbursed should annual TIF receipts be lower than projected. Because of the simplicity of the Project and the lack of volatile incentive revenues (e.g. sales taxes), we find that the projections are straightforward and the figures provided in Exhibit 6 are reasonable.

The City is also at risk, however, in this transaction. By granting incentives, it is making an affirmative decision to cause a project to develop at this site that the market itself will not support. Further, it agrees to continue to support that project financially for more than two decades. There is an opportunity cost to the City to forgo the incremental property taxes from the Project during the life of the TIF (although it is impossible to know what that opportunity cost is without knowing what might have been developed on this site instead of the Project).

## EVALUATING THE APPROPRIATENESS OF INCENTIVES

The City’s ultimate desire for any commercial property is that it be developed to its highest and best use. An efficiently used site will maximize the City’s future tax receipts from the Project and will provide the community with access to amenities and experiences that might not be available in the community today. Ideally, a private developer would produce such an outcome without public subsidy in the project.

**Philosophical Approach.** Most modern urban redevelopment suffers from challenges that increase project costs and reduce investor returns versus similar projects on greenfield sites. Demolition and site preparation, environmental remediation, new or revitalized public utilities, and parking and transportation infrastructure improvements are the common drivers of these higher costs. Philosophically, cities desire to “level the playing field” between more expensive infill sites and less costly “greenfield” sites (undeveloped properties) through the payment of incentives to infill developers. Cities desire to provide incentives that will equalize the profitability of an infill site and a greenfield site. The

challenge for all cities is the asymmetry of information available to assess what, exactly, is this “perfect” level of incentive. Developers often have a desired minimum amount of incentives in mind, but cities are forced to guess this number. The key risk for a city in this challenging dance is that it ends up over-incentivizing the infill project by agreeing to pay the developer a subsidy amount higher than the developer would have accepted to move forward with the project.

**“But-For” Test.** Missouri law requires that a TIF incentives grant meet the so-called “but-for” test, which is also an economic development best practice to employ. The but-for test is simple in theory: but-for the presence of the incentives, the project would not proceed. As described above, urban infill development faces significant barriers to attracting private capital versus less costly, more certain greenfield developments.

In practice, the but-for test is hard to apply. The City does not know the intentions of the developer and the developer has an incentive (and depending on its corporate structure, potentially a duty) to maximize its return from the investment in a project. We understand from reviewing the TIF Plan that the incentives requested are a necessary precondition to the Developer’s construction of the Project. While it is fairly easy to recognize that conditions at the Project’s current site will require investment to make the site attractive to development, it is more challenging to quantify how much incentive is necessary to level the playing field with the cost of developing the Project at another site.

The but-for calculation generally relies on a comparison of the developer’s return on investment, both with and without incentives, against market rates of return for similar projects. These types of analyses are blunt instruments, at best. Legitimate debates rage about calculation inputs, cashflow discounting rates and calculation mechanics at the end of the analysis period. Additionally, these analyses are often performed using concept plan-level project cost information (in this case the Developer assumed a generic 25% operating expense ratio), generic assumptions about sources of project income (lease rates, property sale proceeds) and speculative estimates of potential drivers of new tax revenues (post-construction equalized assessed valuation, in this case). The result is that the developer and the city providing the incentives can draw very different conclusions from the same set of analytical inputs.

## EVALUATING THE APPROPRIATENESS OF THE INCENTIVES AND DEVELOPER’S RATE OF RETURN CALCULATIONS

As described above, the City’s interest (presuming it desires to see the Developer construct the Project) is to provide just enough incentive to cause the Developer to proceed with the Project—but not a penny more. Where the parties have diametrically opposing interests (the Developer wants to maximize its incentives grant while the City wants to pay none), we look to calculate the Projects internal rate of return (“IRR”) with and without incentives, and then compares those rates with what we believe represents market rates of return for similar projects.

Based upon third-party reports published by real estate companies active in the Kansas City market, the “capitalization rate” for market-rate multifamily projects in Kansas City ranges



from 5.1 to 9.8%, providing evidence that the Developer’s assumed 7% rate is reasonable. The capitalization rate or cap rate—an indicator of value relative to stabilized NOI—is a commonly used metric of real estate pricing. Cap rate is a measure of property value per dollar of current net income. Cap rate is useful as a basic valuation measure so an investor can see how a specific project’s valuation compares to other, similar projects. IRR is similar to the concept of “net present value,” and captures the rate of return earned on an investment during a specific time frame, assuming a reinvestment of cash flows at the same return rate. As a result, we can use the cap rate as a proxy for the market rate of return required to induce the Developer to invest in the Project versus another development elsewhere.

Exhibit A provides our detailed assumptions and calculations of the Project’s IRR without and with requested incentives, while the table below summarizes the output of our models. Consistent with convention for real estate transactions, our IRR calculation is a ten-year analysis assuming a hypothetical sale of the Project at the end of the tenth year. For incentivized IRR calculations, we also assume the Developer is able to monetize at the end of the tenth year the remaining incentive entitlements over the permitted life of those entitlements.

The minor differences between our calculations and the ones provided in Exhibit 10 of the Plan are substantively explained by differences in assumptions regarding the timing and amount of the long-term borrowing. As shown in the summary, even with incentives we show below-market returns for the Project.



**CITY OF LEE'S SUMMIT**

**2nd and Douglas TIF Plan**

Version: 2nd and Douglas IRR Model-Initial Review-01.28.19.xlsx  
 Last Updated: 2/19/19 11:01

**PRO FORMA RATE OF RETURN ANALYSIS**

<b>BASE SCENARIO</b> (No Incentives)	<b>PROJECT</b> <b>RATE OF RETURN</b>	<b>EQUITY</b> <b>RATE OF RETURN</b>
Calculated Rate of Return	3.74%	-0.05%
Market Rate of Return	7.00%	12-15%

<b>INCENTIVIZED SCENARIO</b> (TIF)	<b>PROJECT</b> <b>RATE OF RETURN</b>	<b>EQUITY</b> <b>RATE OF RETURN</b>
Calculated Rate of Return	6.19%	8.56%
Market Rate of Return	7.00%	12-15%

<b>INCENTIVES PROPOSED</b>	<b>RATE</b>	<b>FUTURE VALUE</b>
Tax Increment Finance		
Property Tax / "Additional Rent"	100%	16,594,405
Sales Tax Exemption	100%	1,329,790

- Project Rate of Return allows us to compare the projected financial performance of the redevelopment itself to other similar projects in the region to determine whether the fundamentals of the project are consistent with market expectations and, thus, would attract capital to the project
- Equity Rate of Return allows us to evaluate the projected financial return to the developer on the project as measured by the return on the developer's equity over the holding period. The reversion amount is a measure of the net cash released to the developer at the end of the holding period, after repayment of any loans outstanding.

Given our IRR calculations, it is the opinion of Columbia Capital that the requested incentives are required for the Project to develop as proposed by the Developer.

All things equal, TIF revenues would need to be about 35.0% higher than modeled to push the Project's rate of return over a market return. All things equal, construction costs (excluding parking) would need to be 9.8% lower than modeled to push the Project's rate of return over a market return. Finally, all things equal, NOI would need to be 6.7% higher than modeled to push the Project's rate of return over a market return.

**MAXIMUM BONDING CAPACITY**

Though the Developer has requested the TIF revenues on a pay-as-you go basis, the City asked us to calculate the maximum amount of bonding capacity that could be supported by

the projected revenue stream. We prepared two scenarios, one where we assume bonds are issued before the project is complete (with higher required coverage and rates), and one after the projected completion in 2021 with an assumed high level of pre-leasing. The table below provides the results. In addition to showing the estimated bond proceeds generated, we also show revenues collected prior to issuance and the present value (5.5% discount rate, matching the Developer’s expected cost of borrowing) of the residual revenues collected after debt service is paid each year.

Estimated Bonding Capacity Based on Assumed Timing of Issuance Relative to Project Completion	Before Completion	After Completion
Debt Service Coverage Assumed	1.35x	1.25x
Borrowing Rate	6.0%	5.5%
<b>Bond Proceeds</b>	<b>\$5.4 million</b>	<b>\$6.5 million</b>
Revenues Collected Prior to Issuance	N/A	\$0.6 million
Present Value of Residual Revenues (After DS)	\$2.4 million	\$1.9 million
<b>Total PV of Funds Available for the Project</b>	<b>\$7.8 million</b>	<b>\$9.0 million</b>

## CONCLUSION AND RECOMMENDATIONS

Based upon the information available to us and subject to the limitations noted in the foregoing paragraphs, we conclude that the Project as proposed will require the incentives requested—both from TIF and through the sales tax exemption—in order to provide a rate of return at or near a market return. Thus, our opinion is that the Developer’s proposal meets the statutory but-for test. As part of this conclusion, we also find that the key inputs to the but-for analysis—assumed construction costs, assumed net operating income from the apartments, and assumed private borrowing costs—are reasonable and consistent with similar projects constructed recently or currently in development in the Kansas City metropolitan area.

Prior to taking action on the Developer’s proposal, we recommend the Commission request from the Developer and review carefully:

- the assurances the Developer will provide with respect to its contractual assurance that the Project will be completed as proposed on the timeline anticipated
- the need for a 23-year TIF given the pro forma’s anticipation that all TIF-eligible costs will be exhausted three years prior to the statutory maximum expiration date
- an update on the progress of the private financing and source of the required equity

We would be pleased to supplement this analysis with any additional information provided by the Developer during the Commission’s deliberations.



Exhibit A—Pro Forma Developer Rate of Return Analysis



**Pro Forma Developer Rate of Return Analysis  
 Before Incentives**

**BASE SCENARIO (NO INCENTIVES)**

Year	1	2	3	4	5	6	7	8	9	10
Inflation		102%	102%	102%	102%	102%	102%	102%	102%	102%
Period Ending	<b>12/31/19</b>	<b>12/31/20</b>	<b>12/31/21</b>	<b>12/31/22</b>	<b>12/31/23</b>	<b>12/31/24</b>	<b>12/31/25</b>	<b>12/31/26</b>	<b>12/31/27</b>	<b>12/31/28</b>
<b>INCOME</b>										
Gross Base Rental Income	-	-	955,164	3,820,656	3,897,069	3,975,011	4,054,511	4,135,601	4,218,313	4,302,679
Other	-	-	100,284	401,136	409,159	417,342	425,689	434,203	442,887	451,744
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
Other Income (Dev Fee+Cap I)	1,600,000	-	-	-	-	-	-	-	-	-
<b>Total Income</b>	<b>1,600,000</b>	-	<b>1,055,448</b>	<b>4,221,792</b>	<b>4,306,228</b>	<b>4,392,353</b>	<b>4,480,200</b>	<b>4,569,804</b>	<b>4,661,200</b>	<b>4,754,423</b>
<b>EXPENSES</b>										
Vacancy	-	-	-	211,090	215,311	219,618	224,010	228,490	233,060	237,721
Operating Expenses	-	-	237,476	1,055,448	1,076,557	1,098,088	1,120,050	1,142,451	1,165,300	1,188,606
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	-	-	<b>237,476</b>	<b>1,266,538</b>	<b>1,291,868</b>	<b>1,317,706</b>	<b>1,344,060</b>	<b>1,370,941</b>	<b>1,398,360</b>	<b>1,426,327</b>
<b>Net Operating Income</b>	<b>1,600,000</b>	-	<b>817,972</b>	<b>2,955,254</b>	<b>3,014,360</b>	<b>3,074,647</b>	<b>3,136,140</b>	<b>3,198,863</b>	<b>3,262,840</b>	<b>3,328,096</b>

**Notes:**

\*Developer fee assumed to be \$1,600,000

Cost of Project	53,150,000									
Land	2,800,000									
Capitalized Interest	-									
Building/Improvements	34,050,000									
Parking Structure	8,300,000									
Other	8,000,000									
Developer Fee	-									

Cost Per Door	124,270									
Assumed Capital Stack	53,150,000									
	Principal Outstanding									
	Year 1	Year 2	Year 3							
Senior Construction Loan 5.5% Xxy initial / 25y am	39,862,500	75%	7,972,500	33,883,125	39,862,500					
Other Loan	-		20%	85%	100%					
Developer's Equity	13,287,500	25%								

Principal Amortization										
Loan 1	-	-	-	779,286	822,147	867,365	915,070	965,399	1,018,496	1,074,513
Loan 2	-	-	-	-	-	-	-	-	-	-

Debt Service & CapEx Costs/[Senior Coverage]	3.64x	0x	0.37x	0.99x	1.01x	1.03x	1.05x	1.07x	1.09x	1.11x
Capital Expenditures/Reserves	-	-	-	-	-	-	-	-	-	-
Loan 1	438,488	1,863,572	2,192,438	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724
Loan 2	-	-	-	-	-	-	-	-	-	-
<b>Totals</b>	<b>438,488</b>	<b>1,863,572</b>	<b>2,192,438</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>

Cap Rates	Rates	Contrib to Yr 10								
Multi-Family	7.00%	4,754,423								
Other 1	0.00%	Blended Cap Rate								
Other 2	0.00%	7.00%								
Other 3	0.00%									

Reversion Calculation	Project IRR		Equity IRR	
Year 10 NOI	3,328,096		Year 10 NOI	3,328,096
Divided: by Cap Rate	7.00%		Divided: by Cap Rate	7.00%
Equals: Reversion Amount	47,544,229		Less: Loan Balance Remaining	( 33,420,225 )
			Equals: Reversion Amount	14,124,004

**PROJECT IRR CALCULATION**

Date	Cashflows	
6/30/19 (	53,150,000 )	> project cost
12/31/19	1,600,000	> annual cashflow
12/31/20	-	> annual cashflow
12/31/21	817,972	> annual cashflow
12/31/22	2,955,254	> annual cashflow
12/31/23	3,014,360	> annual cashflow
12/31/24	3,074,647	> annual cashflow
12/31/25	3,136,140	> annual cashflow
12/31/26	3,198,863	> annual cashflow
12/31/27	3,262,840	> annual cashflow
12/31/28	3,328,096	> annual cashflow
1/1/29	47,544,229	> reversion value
<b>IRR</b>	<b>3.74%</b>	
Market IRR	7.00%	

**DEVELOPER EQUITY IRR CALCULATION**

Date	Cashflows	
6/30/19 (	13,287,500 )	> equity contribution
12/31/19	1,161,513	> annual cashflow after debt service/capex
12/31/20 (	1,863,572 )	> annual cashflow after debt service/capex
12/31/21 (	1,374,466 )	> annual cashflow after debt service/capex
12/31/22 (	16,470 )	> annual cashflow after debt service/capex
12/31/23	42,636	> annual cashflow after debt service/capex
12/31/24	102,923	> annual cashflow after debt service/capex
12/31/25	164,416	> annual cashflow after debt service/capex
12/31/26	227,139	> annual cashflow after debt service/capex
12/31/27	291,116	> annual cashflow after debt service/capex
12/31/28	356,372	> annual cashflow after debt service/capex
1/1/29	14,124,004	> reversion value
<b>IRR</b>	<b>-0.05%</b>	
Market IRR	12-15%	

**Pro Forma Developer Rate of Return Analysis  
 After Incentives**

**INCENTIVIZED SCENARIO**

Year	1	2	3	4	5	6	7	8	9	10
Inflation	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
<b>INCOME</b>										
Gross Base Rental Income	-	-	955,164	3,820,656	3,897,069	3,975,011	4,054,511	4,135,601	4,218,313	4,302,679
Other	-	-	100,284	401,136	409,159	417,342	425,689	434,203	442,887	451,744
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
[Reserved]	-	-	-	-	-	-	-	-	-	-
Other Income (Dev Fee+Cap I)	1,600,000	-	-	-	-	-	-	-	-	-
<b>Total Income</b>	<b>1,600,000</b>	<b>-</b>	<b>1,055,448</b>	<b>4,221,792</b>	<b>4,306,228</b>	<b>4,392,353</b>	<b>4,480,200</b>	<b>4,569,804</b>	<b>4,661,200</b>	<b>4,754,423</b>
<b>EXPENSES (INCENTIVES SHOWN AS NEGATIVE EXPENSES)</b>										
Vacancy	-	-	-	211,090	215,311	219,618	224,010	228,490	233,060	237,721
Operating Expenses	-	-	237,476	1,055,448	1,076,557	1,098,088	1,120,050	1,142,451	1,165,300	1,188,606
TIF Revenue	-	-	-	( 721,267 )	( 721,267 )	( 737,422 )	( 737,422 )	( 753,900 )	( 753,900 )	( 770,708 )
Additional Rent	-	( 115,445 )	( 519,326 )	-	-	-	-	-	-	-
Sales Tax Exemption Value	-	( 664,895 )	( 664,895 )	-	-	-	-	-	-	-
Total Expenses	-	( 780,340 )	( 946,745 )	545,271	570,601	580,284	606,638	617,041	644,460	655,619
<b>Net Operating Income</b>	<b>1,600,000</b>	<b>780,340</b>	<b>2,002,193</b>	<b>3,676,521</b>	<b>3,735,627</b>	<b>3,812,069</b>	<b>3,873,562</b>	<b>3,952,763</b>	<b>4,016,740</b>	<b>4,098,804</b>

**Notes:**  
 \*Developer fee assumed to be \$1,600,000

<b>Cost of Project</b>	53,150,000
Land	2,800,000
Capitalized Interest	-
Building/Improvements	34,050,000
Parking Structure	8,300,000
Other	8,000,000
Developer Fee	-

<b>Cost Per Door</b>	124,270
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Assumed Capital Stack			Principal Outstanding		
			Year 1	Year 2	Year 3
Senior Construction Loan 5.5% XXy initial / 25y am	39,862,500	75%	7,972,500	33,883,125	39,862,500
Other Loan	-	-	20%	85%	100%
Developer's Equity	13,287,500	25%	-	-	-

<b>Principal Amortization</b>										
Loan 1	-	-	-	779,286	822,147	867,365	915,070	965,399	1,018,496	1,074,513
Loan 2	-	-	-	-	-	-	-	-	-	-

<b>Debt Service &amp; CapEx Costs/[Senior Coverage]</b>	<b>3.64x</b>	<b>0.41x</b>	<b>0.91x</b>	<b>1.23x</b>	<b>1.25x</b>	<b>1.28x</b>	<b>1.30x</b>	<b>1.33x</b>	<b>1.35x</b>	<b>1.37x</b>
Capital Expenditures/Reserves	-	-	-	-	-	-	-	-	-	-
Loan 1	438,488	1,863,572	2,192,438	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724	2,971,724
Loan 2	-	-	-	-	-	-	-	-	-	-
<b>Totals</b>	<b>438,488</b>	<b>1,863,572</b>	<b>2,192,438</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>	<b>2,971,724</b>

<b>Cap Rates</b>	Rates	Contrib to Yr 10
Multi-Family	7.00%	4,754,423
Other 1	0.00%	-
Other 2	0.00%	-
Other 3	0.00%	-
		Blended Cap Rate
		7.00%

<b>Reversion Calculation</b>		
<i>Project IRR</i>		<i>Equity IRR</i>
Year 10 NOI Less Incentives	3,328,096	Year 10 NOI Less Incentives
Divided: by Cap Rate	7.00%	Divided: by Cap Rate
Equals: Reversion Amount	47,544,229	Less: Loan Balance Remaining
		( 33,420,225 )
		Equals: Reversion Amount
		14,124,004
		Add PV of Future Incentives
		6,849,225
		Total Reversion Amount
		20,973,229

<b>Value of Sales Tax Exemption</b>	42,350,000
Construction & FFE Costs	42,350,000
Times: Percentage Assumed Taxable	40%
Times: Average Sales Tax Rate	7.85%
Equals: Value of Exemption	1,329,790

Incentives Receipts	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29	12/31/30	12/31/31	12/31/32	12/31/33	12/31/34	12/31/35	12/31/36	12/31/37	12/31/38	12/31/39	12/31/40	12/31/41
TIF Receipts Schedule	0	0	0	721,267	721,267	737,422	737,422	753,900	753,900	770,708	770,708	787,852	787,852	805,339	805,339	823,176	823,176	841,370	841,370	859,927	859,927	878,855	878,855
Other Receipts	0	115,445	519,326	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Value of IRB Sales Tax Exemption	1,329,790																						

PV of Remaining Value of Incentives: **6,849,225** at Cap Rate

**PROJECT IRR CALCULATION**

Date	Cashflows
6/30/19	( 53,150,000 )
12/31/19	1,600,000
12/31/20	780,340
12/31/21	2,002,193
12/31/22	3,676,521
12/31/23	3,735,627
12/31/24	3,812,069
12/31/25	3,873,562
12/31/26	3,952,763
12/31/27	4,016,740
12/31/28	4,098,804
1/1/29	54,393,453
<b>IRR</b>	<b>6.19%</b>
Market IRR	7.00%

**DEVELOPER EQUITY IRR CALCULATION**

Date	Cashflows
6/30/19	( 13,287,500 )
12/31/19	1,161,513
12/31/20	( 1,083,232 )
12/31/21	( 190,245 )
12/31/22	704,797
12/31/23	763,903
12/31/24	840,345
12/31/25	901,838
12/31/26	981,040
12/31/27	1,045,017
12/31/28	1,127,081
1/1/29	20,973,229
<b>IRR</b>	<b>8.56%</b>
Market IRR	12-15%