

Roosevelt Family Lofts, LLC  
711 10th Ave N.  
Information for PILOT Application

INVESTOR ROSTER

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INVESTMENT SUMMARY

12 Market Rate Townhomes  
Unit Mix: 12 3BD/2BA  
2 stall garage included with rent

TOTAL PROJECT COST	\$ 3,234,998
HARD CAPITAL COSTS	\$ 3,234,998
CONTRIBUTED EQUITY	\$ 808,750
ANTICIPATED LOAN TERMS	10-Year Term; 25-Year Amortization; 5.0% APR
UNIT MIX	12 3 Bedroom/2 Bathroom Townhouse Style Units
PROPOSED RENT	\$1,750 per unit per month

Roosevelt Family Lofts, LLC  
 Project Name Uptown Lofts 2.0  
 Project Type Market Rate Multifamily  
 Units 13

Unit Type	Unit Count	Market Rent	GPR		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Notes
Gross Potential Rent					276,900	279,669	282,466	285,290	288,143	291,025	293,935	296,874	299,843	302,841	
Vacancies					(22,152)	(22,374)	(22,597)	(22,823)	(23,051)	(23,282)	(23,515)	(23,750)	(23,987)	(24,227)	8.0%
Month-to-Month Rent															0.0%
Garage/Parking Rent					-	-	-	-	-	-	-	-	-	-	
Storage Unit Rent					-	-	-	-	-	-	-	-	-	-	
Laundry Rental Income					-	-	-	-	-	-	-	-	-	-	
Pet Rent					692	699	706	713	720	728	735	742	750	757	0.3%
Rental Incentives					(5,538)	(5,593)	(5,649)	(5,706)	(5,763)	(5,820)	(5,879)	(5,937)	(5,997)	(6,057)	2.0%
Net Rental Income					249,902	252,401	254,925	257,475	260,049	262,650	265,276	267,929	270,608	273,314	
NSF Fees					-	-	-	-	-	-	-	-	-	-	0%
Late Fees					415	420	424	428	432	437	441	445	450	454	0.2%
Pet Deposit - Non Refundable					415	420	424	428	432	437	441	445	450	454	0.2%
Application Fees					455	460	464	469	473	478	483	488	493	498	35
Re-Rental Charges					-	-	-	-	-	-	-	-	-	-	0%
Cable/Telecom Income					-	-	-	-	-	-	-	-	-	-	-
Total Operating Income					251,188	253,700	256,237	258,799	261,387	264,001	266,641	269,307	272,001	274,721	
Maintenance Staff Costs					4,056	4,117	4,179	4,241	4,305	4,369	4,435	4,502	4,569	4,638	26.00
Repairs/Maintenance					312	317	321	326	331	336	341	346	351	357	2.00
Turn Cleaning					468	475	482	489	497	504	512	519	527	535	3.00
Carpet Cleaning					250	254	258	261	265	269	273	277	282	286	250.00
Extermination					39	40	40	41	41	42	43	43	44	45	0.25
HVAC					273	277	281	285	290	294	299	303	308	312	1.75
Electrical					78	79	80	82	83	84	85	87	88	89	0.50
Fire					350	355	361	366	371	377	383	388	394	400	350.00
Plumbing					156	158	161	163	166	168	171	173	176	178	1.00
Painting					350	355	361	366	371	377	383	388	394	400	350.00
Appliances					468	475	482	489	497	504	512	519	527	535	3.00
Flooring					234	238	241	245	248	252	256	260	264	268	1.50
Tools & Equipment					78	79	80	82	83	84	85	87	88	89	0.50
Keys/Locks					200	203	206	209	212	215	219	222	225	229	200
Lawn Care					1,000	1,015	1,030	1,046	1,061	1,077	1,093	1,110	1,126	1,143	1.500
Grounds Maintenance					500	508	515	523	531	539	547	555	563	572	500
Snow Removal					3,200	3,248	3,297	3,346	3,396	3,447	3,499	3,552	3,605	3,659	3,200
Pet Related					156	158	161	163	166	168	171	173	176	178	1.00
Parking Areas Maintenance					300	305	309	314	318	323	328	333	338	343	300.00
Other Maintenance					156	158	161	163	166	168	171	173	176	178	1.00
Resident Chargebacks					(624)	(633)	(643)	(653)	(662)	(672)	(682)	(693)	(703)	(713)	(4.00)
Total Maintenance Exp.					12,000	12,180	12,363	12,548	12,736	12,927	13,121	13,318	13,518	13,721	
Staff Costs					2,808	2,850	2,893	2,936	2,980	3,025	3,070	3,116	3,163	3,211	18.00
Property Management					3,500	3,553	3,606	3,660	3,715	3,770	3,827	3,884	3,943	4,002	-
Advertising & Promotion					1,326	1,346	1,366	1,387	1,407	1,428	1,450	1,472	1,494	1,516	8.50
Legal					-	-	-	-	-	-	-	-	-	-	-
Accounting					1,000	1,015	1,030	1,046	1,061	1,077	1,093	1,110	1,126	1,143	1,000.00
Other Professional Fees					78	79	80	82	83	84	85	87	88	89	0.50
Asset Management					-	-	-	-	-	-	-	-	-	-	0.02
Tenant Screening					300	305	309	314	318	323	328	333	338	343	1.00
Security Deposit Interest					156	158	161	163	166	168	171	173	176	178	1.00
Insurance					16,000	16,240	16,484	16,731	16,982	17,237	17,495	17,758	18,024	18,294	0.0025
Real Estate Taxes					45,500	46,183	46,875	47,578	48,292	49,016	49,752	50,498	51,255	52,024	
Specials Installments					-	-	-	-	-	-	-	-	-	-	-
Electricity - Apts					234	238	241	245	248	252	256	260	264	268	1.50
Electricity - Bldg					1,716	1,742	1,768	1,794	1,821	1,849	1,876	1,904	1,933	1,962	11.00
Natural Gas - Apts					312	317	321	326	331	336	341	346	351	357	2.00
Natural Gas - Bldg					1,248	1,267	1,286	1,305	1,325	1,344	1,365	1,385	1,406	1,427	8.00
Water and Sewer					4,680	4,750	4,821	4,894	4,967	5,042	5,117	5,194	5,272	5,351	30
Garbage Removal					1,872	1,900	1,929	1,958	1,987	2,017	2,047	2,078	2,109	2,140	12.00
Total Admin & Utility Exp.					80,730	81,941	83,170	84,418	85,684	86,969	88,274	89,598	90,942	92,306	
Total Operating Exp.					92,730	94,121	95,533	96,966	98,420	99,897	101,395	102,916	104,460	106,027	
Net Operating Income					158,458	159,579	160,704	161,833	162,967	164,105	165,246	166,392	167,541	168,694	
					63%	63%	63%	63%	62%	62%	62%	62%	62%	61%	
Less: Cap Project Reserves					3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	300.00
Primary Debt Service					172,148	172,148	172,148	172,148	172,148	172,148	172,148	172,148	172,148	172,148	
Second Debt Service					-	-	-	-	-	-	-	-	-	-	
Cash Flow					(17,590)	(16,469)	(15,344)	(14,215)	(13,081)	(11,944)	(10,802)	(9,657)	(8,507)	(7,354)	
Cash on Cash Return					-2.18%	-2.04%	-1.90%	-1.76%	-1.62%	-1.48%	-1.34%	-1.19%	-1.05%	-0.91%	

**Roosevelt Family Lofts, LLC**  
711 10th Ave.

Construction Costs					
	Original Budget	Changes	Revised Budget		
Hard Direct Costs	2,652,000			204,000	Per unit
Clubhouse	-			-	Per unit FFE included above
Contingency	92,820			3.50%	% of Hard Construction Cost
General Contractors Fee	137,241			5.00%	% of Hard Construction Cost + Cont.
Allocated OH Fee	-			0.00%	" "
<b>Total Construction Cost</b>	<b>2,882,061</b>			221,697	Per unit
Land Costs					
Land Cost Per Recap	250,000			19,231	Per unit
Specials Buy Down	-			-	Per unit
<b>Total Land Cost</b>	<b>250,000</b>			<b>1,316</b>	Per unit
City Costs					
SAC	-			-	Per Unit
WAC	-			-	Per Unit
PAC - Res High	-			-	Per Unit
PAC - Res Med	-			-	Per Unit
PAC - Res Low	-			-	Per Unit
Trunk Sewer/Trunk Water/Storm	-			-	Per Acre
City Fee Contingency	-			-	Added SAC/WAC Units
TIF	-			-	Per Unit
<b>Total City Fees</b>	<b>-</b>			<b>-</b>	Per unit
Consultant Costs					
Architecture	14,000			778	Per Unit
Civil	3,500			194	Per Unit
Structural	3,500			194	Per Unit
Geotechnical	1,000			56	Per Unit
Interiors	1,000			56	Per Unit
Landscape	-			-	Per Unit
Brand	-			-	Per Unit
Rendering	500			28	Per Unit
Feasibility	-			-	Per Unit
Traffic Study	-			-	Per Unit
Pre-Con Fee	-			-	Per Unit
Contingency	1,000			56	Per Unit
<b>Total Consultant Costs</b>	<b>24,500</b>			<b>1,885</b>	Per Unit
Financing Costs					
Interest Expense (1st)	26,837				
Interest Expense (Mezz)	-				1 Year of I/O
Origination Mortgage	10,000				0.5% of Mortgage
Accounting Finance Fee	2,500				0.125% of Mortgage
Legal	-				
Registration/Placement Fee	20,000				1% of Mortgage
Appraisal	1,000				
Settlement Fee	250				
Title Search	1,000				
Title Exam	500				
Doc Prep	150				
Title Insurance	2,000				0.1% of Mortgage
Other Closing Fees	200				
<b>Total Financing Costs</b>	<b>64,437</b>			<b>4,956.73</b>	Per Unit
Other Soft Costs					
Real estate taxes	5,000				50% (due X/X & X/X)
Property Insurance	5,000				Full Year
Marketing - Lease Up	3,000				
Management - Lease Up	1,000				
<b>Total Other Soft Costs</b>	<b>14,000</b>			<b>73.68</b>	Per unit
Developer's Fee	-			0.00%	% on all costs
<b>DISCOUNTED FEE</b>	<b>-</b>				<b>Fixed Cost Per Agreement</b>
<b>Total Development Cost</b>	<b>3,234,998</b>			<b>248,846.03</b>	Per unit

Roosevelt Family Lofts, LLC

Project Value	3,234,998
Price Per Unit	248,846
YR 1 Total Operating Income	251,188
YR 1 Total Operating Exp.	92,730
YR 1 Net Operating Income	158,458
YR 1 Debt Service	172,148
YR 1 Annual Cash Flow	(13,690)
Stabilized Cap Rate	4.90%
First Mortgage (75% Non-recours PMT (P&I) DSCR	2,426,249 172,148 0.92
Cash Flow	
Equity Invested	808,750
Cash on Equity Return	
Est. Sale Value at Year 10	3,100,000
Development Cost Basis	3,234,998
Proceeds From Sale	(134,998)

CAPITAL STRUCTURE

Total Development Cost	3,234,998
1st Mortgage (75%)	2,426,249
2nd Mortgage (20%)	-
Equity	808,750

INVESTMENT STATS

EQUITY INVESTMENT	808,750
10-YEAR IRR	4.30%
10-YR AVG CASH-ON-CASH	-1.5%
10-YR ROI	6.24%

EXIT SCENARIO

Sale at Year 10	3,100,000
1st Mortgage	1,761,498
2nd Mortgage	-
Partner Equity Return	808,750
	<u>529,752</u>
Year 5	
Cash Return	(13,081)
Principle Reduction	63,531
Taxable Loss (28%)	
	<u>50,449</u>
ROI	6.24%

**AMORTIZATION SCHEDULE**

Re:	Roosevelt Lofts	Principal Amount	2,426,248.83
			14,345.69
Payor:	Roosevelt Lofts	Interest Rate	5.00%
	TBD		25
Payee:	Roosevelt Lofts	Amortization Term	25
	TBD		Feb-01-2022
		Mortgage Start Date	Feb-01-2022
		First Payment Starts	Mar-01-2022
		Balloon Date	Mar-01-2032

No.	Payment Dates	Monthly payment	Interest	Principal	Principal Balance	Annual Interest	Annual Prin Red	Annual Payment
	Feb-01-2022				2,426,248.83			
1	Mar-01-2022	14,345.69	9,306.16	5,039.53	2,421,209.29			
2	Apr-01-2022	14,345.69	10,281.85	4,063.84	2,417,145.45			
3	May-01-2022	14,345.69	9,933.47	4,412.22	2,412,733.23			
4	Jun-01-2022	14,345.69	10,245.85	4,099.84	2,408,633.38			
5	Jul-01-2022	14,345.69	9,898.49	4,447.20	2,404,186.18			
6	Aug-01-2022	14,345.69	10,209.56	4,136.13	2,400,050.05			
7	Sep-01-2022	14,345.69	10,191.99	4,153.70	2,395,896.34			
8	Oct-01-2022	14,345.69	9,846.15	4,499.54	2,391,396.80			
9	Nov-01-2022	14,345.69	10,155.25	4,190.44	2,387,206.36			
10	Dec-01-2022	14,345.69	9,810.44	4,535.25	2,382,671.11			
11	Jan-01-2023	14,345.69	10,118.19	4,227.50	2,378,443.60			
12	Feb-01-2023	14,345.69	10,100.24	4,245.45	2,374,198.15	120,097.64	52,050.68	172,148.32
13	Mar-01-2023	14,345.69	9,106.51	5,239.18	2,368,958.97			
14	Apr-01-2023	14,345.69	10,059.96	4,285.73	2,364,673.23			
15	May-01-2023	14,345.69	9,717.84	4,627.85	2,360,045.38			
16	Jun-01-2023	14,345.69	10,022.11	4,323.58	2,355,721.80			
17	Jul-01-2023	14,345.69	9,681.05	4,664.64	2,351,057.15			
18	Aug-01-2023	14,345.69	9,983.94	4,361.75	2,346,695.40			
19	Sep-01-2023	14,345.69	9,965.42	4,380.27	2,342,315.13			
20	Oct-01-2023	14,345.69	9,625.95	4,719.74	2,337,595.39			
21	Nov-01-2023	14,345.69	9,926.77	4,418.92	2,333,176.46			
22	Dec-01-2023	14,345.69	9,588.40	4,757.29	2,328,419.17			
23	Jan-01-2024	14,345.69	9,887.81	4,457.88	2,323,961.29			
24	Feb-01-2024	14,345.69	9,868.88	4,476.81	2,319,484.47	117,434.64	54,713.68	172,148.32
25	Mar-01-2024	14,345.69	9,214.39	5,131.30	2,314,353.17			
26	Apr-01-2024	14,345.69	9,828.08	4,517.61	2,309,835.56			
27	May-01-2024	14,345.69	9,492.47	4,853.22	2,304,982.33			
28	Jun-01-2024	14,345.69	9,788.28	4,557.41	2,300,424.92			
29	Jul-01-2024	14,345.69	9,453.80	4,891.89	2,295,533.03			
30	Aug-01-2024	14,345.69	9,748.15	4,597.54	2,290,935.49			
31	Sep-01-2024	14,345.69	9,728.63	4,617.06	2,286,318.42			
32	Oct-01-2024	14,345.69	9,395.83	4,949.86	2,281,368.56			
33	Nov-01-2024	14,345.69	9,688.00	4,657.69	2,276,710.87			
34	Dec-01-2024	14,345.69	9,356.35	4,989.34	2,271,721.52			
35	Jan-01-2025	14,345.69	9,647.04	4,698.65	2,267,022.87			
36	Feb-01-2025	14,345.69	9,627.08	4,718.61	2,262,304.26	114,968.10	57,180.22	172,148.32
37	Mar-01-2025	14,345.69	8,677.33	5,668.36	2,256,635.89			
38	Apr-01-2025	14,345.69	9,582.97	4,762.72	2,251,873.17			
39	May-01-2025	14,345.69	9,254.27	5,091.42	2,246,781.75			
40	Jun-01-2025	14,345.69	9,541.13	4,804.56	2,241,977.18			
41	Jul-01-2025	14,345.69	9,213.60	5,132.09	2,236,845.09			
42	Aug-01-2025	14,345.69	9,498.93	4,846.76	2,231,998.33			
43	Sep-01-2025	14,345.69	9,478.35	4,867.34	2,227,130.99			
44	Oct-01-2025	14,345.69	9,152.59	5,193.10	2,221,937.88			
45	Nov-01-2025	14,345.69	9,435.63	4,910.06	2,217,027.82			
46	Dec-01-2025	14,345.69	9,111.07	5,234.62	2,211,793.20			
47	Jan-01-2026	14,345.69	9,392.55	4,953.14	2,206,840.05			
48	Feb-01-2026	14,345.69	9,371.51	4,974.18	2,201,865.87	111,709.93	60,438.39	172,148.32
49	Mar-01-2026	14,345.69	8,445.51	5,900.18	2,195,965.69			
50	Apr-01-2026	14,345.69	9,325.33	5,020.36	2,190,945.32			
51	May-01-2026	14,345.69	9,003.88	5,341.81	2,185,603.51			
52	Jun-01-2026	14,345.69	9,281.33	5,064.36	2,180,539.15			
53	Jul-01-2026	14,345.69	8,961.12	5,384.57	2,175,154.58			
54	Aug-01-2026	14,345.69	9,236.96	5,108.73	2,170,045.84			
55	Sep-01-2026	14,345.69	9,215.26	5,130.43	2,164,915.41			
56	Oct-01-2026	14,345.69	8,896.91	5,448.78	2,159,466.63			
57	Nov-01-2026	14,345.69	9,170.34	5,175.35	2,154,291.27			
58	Dec-01-2026	14,345.69	8,853.25	5,492.44	2,148,798.83			
59	Jan-01-2027	14,345.69	9,125.04	5,220.65	2,143,578.18			

60	Feb-01-2027	14,345.69	9,102.87	5,242.82	2,138,335.35	108,617.80	63,530.52	172,148.32
61	Mar-01-2027	14,345.69	8,201.83	6,143.86	2,132,191.49			
62	Apr-01-2027	14,345.69	9,054.51	5,291.18	2,126,900.31			
63	May-01-2027	14,345.69	8,740.69	5,605.00	2,121,295.31			
64	Jun-01-2027	14,345.69	9,008.24	5,337.45	2,115,957.85			
65	Jul-01-2027	14,345.69	8,695.72	5,649.97	2,110,307.88			
66	Aug-01-2027	14,345.69	8,961.58	5,384.11	2,104,923.77			
67	Sep-01-2027	14,345.69	8,938.72	5,406.97	2,099,516.79			
68	Oct-01-2027	14,345.69	8,628.15	5,717.54	2,093,799.25			
69	Nov-01-2027	14,345.69	8,891.48	5,454.21	2,088,345.04			
70	Dec-01-2027	14,345.69	8,582.24	5,763.45	2,082,581.58			
71	Jan-01-2028	14,345.69	8,843.84	5,501.85	2,077,079.73			
72	Feb-01-2028	14,345.69	8,820.48	5,525.21	2,071,554.52	105,367.48	66,780.84	172,148.32
73	Mar-01-2028	14,345.69	8,229.46	6,116.23	2,065,438.29			
74	Apr-01-2028	14,345.69	8,771.04	5,574.65	2,059,863.63			
75	May-01-2028	14,345.69	8,465.19	5,880.50	2,053,983.13			
76	Jun-01-2028	14,345.69	8,722.39	5,623.30	2,048,359.83			
77	Jul-01-2028	14,345.69	8,417.92	5,927.77	2,042,432.05			
78	Aug-01-2028	14,345.69	8,673.34	5,672.35	2,036,759.70			
79	Sep-01-2028	14,345.69	8,649.25	5,696.44	2,031,063.26			
80	Oct-01-2028	14,345.69	8,346.84	5,998.85	2,025,064.40			
81	Nov-01-2028	14,345.69	8,599.59	5,746.10	2,019,318.30			
82	Dec-01-2028	14,345.69	8,298.57	6,047.12	2,013,271.18			
83	Jan-01-2029	14,345.69	8,549.51	5,796.18	2,007,475.00			
84	Feb-01-2029	14,345.69	8,524.89	5,820.80	2,001,654.19	102,247.99	69,900.33	172,148.32
85	Mar-01-2029	14,345.69	7,677.58	6,668.11	1,994,986.08			
86	Apr-01-2029	14,345.69	8,471.86	5,873.83	1,989,112.25			
87	May-01-2029	14,345.69	8,174.43	6,171.26	1,982,940.98			
88	Jun-01-2029	14,345.69	8,420.71	5,924.98	1,977,016.00			
89	Jul-01-2029	14,345.69	8,124.72	6,220.97	1,970,795.03			
90	Aug-01-2029	14,345.69	8,369.13	5,976.56	1,964,818.46			
91	Sep-01-2029	14,345.69	8,343.75	6,001.94	1,958,816.52			
92	Oct-01-2029	14,345.69	8,049.93	6,295.76	1,952,520.76			
93	Nov-01-2029	14,345.69	8,291.53	6,054.16	1,946,466.60			
94	Dec-01-2029	14,345.69	7,999.18	6,346.51	1,940,120.08			
95	Jan-01-2030	14,345.69	8,238.87	6,106.82	1,934,013.26			
96	Feb-01-2030	14,345.69	8,212.93	6,132.76	1,927,880.50	98,374.62	73,773.70	172,148.32
97	Mar-01-2030	14,345.69	7,394.61	6,951.08	1,920,929.41			
98	Apr-01-2030	14,345.69	8,157.37	6,188.32	1,914,741.09			
99	May-01-2030	14,345.69	7,868.80	6,476.89	1,908,264.20			
100	Jun-01-2030	14,345.69	8,103.59	6,242.10	1,902,022.09			
101	Jul-01-2030	14,345.69	7,816.53	6,529.16	1,895,492.93			
102	Aug-01-2030	14,345.69	8,049.35	6,296.34	1,889,196.59			
103	Sep-01-2030	14,345.69	8,022.62	6,323.07	1,882,873.51			
104	Oct-01-2030	14,345.69	7,737.84	6,607.85	1,876,265.66			
105	Nov-01-2030	14,345.69	7,967.70	6,377.99	1,869,887.67			
106	Dec-01-2030	14,345.69	7,684.47	6,661.22	1,863,226.45			
107	Jan-01-2031	14,345.69	7,912.33	6,433.36	1,856,793.08			
108	Feb-01-2031	14,345.69	7,885.01	6,460.68	1,850,332.40	94,600.22	77,548.10	172,148.32
109	Mar-01-2031	14,345.69	7,097.17	7,248.52	1,843,083.88			
110	Apr-01-2031	14,345.69	7,826.79	6,518.90	1,836,564.97			
111	May-01-2031	14,345.69	7,547.53	6,798.16	1,829,766.81			
112	Jun-01-2031	14,345.69	7,770.24	6,575.45	1,823,191.36			
113	Jul-01-2031	14,345.69	7,492.57	6,853.12	1,816,338.23			
114	Aug-01-2031	14,345.69	7,713.22	6,632.47	1,809,705.76			
115	Sep-01-2031	14,345.69	7,685.05	6,660.64	1,803,045.12			
116	Oct-01-2031	14,345.69	7,409.77	6,935.92	1,796,109.20			
117	Nov-01-2031	14,345.69	7,627.31	6,718.38	1,789,390.81			
118	Dec-01-2031	14,345.69	7,353.66	6,992.03	1,782,398.78			
119	Jan-01-2032	14,345.69	7,569.09	6,776.60	1,775,622.18			
120	Feb-01-2032	14,345.69	7,540.31	6,805.38	1,768,816.79	90,632.71	81,515.61	172,148.32
121	Mar-01-2032	14,345.69	7,026.81	7,318.88	1,761,497.91	14,567.12	14,124.27	28,691.39

# City of Fargo, North Dakota

Payment in Lieu of Taxes Program

“But-For” Report

711 10<sup>th</sup> Avenue North

Downtown District

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July 14, 2022



## Table of Contents

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	<u>Page</u>
1. Purpose	1
2. Project	2
3. Project Financing	3
4. Return Analysis	4
5. Conclusion	6

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## Purpose

The purpose of this report is to establish and determine the allowable value of the payment in lieu of taxes (PILOT) tax exemption for Roosevelt Family Lofts, LLC (the “Developer”).

PFM first reviewed the application/proforma to ensure that appropriate assumptions regarding property value, rent, vacancy, and expenses were used by the Developer. Based on those assumptions, PFM projected a 10-year cash flow, calculating an internal rate of return. The following report details PFM’s analysis and conclusions concerning the viability of the proposed project without the subsidy. The proposed project will be an investment of the Developer so PFM also calculated an internal rate of return for the project.

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## Project

The project being proposed by Roosevelt Family Lofts, LLC (the “Developer”) includes constructing 13 townhome units at 711 10<sup>th</sup> Avenue North. The townhomes will all be three-bedroom, two-bathroom units. As noted in the previous section, the proposed project is to be an investment property for the Developer.

The Developer has stated that the construction will be completed by September 2023 with occupancy immediately following. The Developer has requested PILOT financing assistance in an amount of \$233,418 on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. Both the estimated tax payments and estimated PILOT payments assume a property value increase of 1.00% per year. This amount assumes five years of 100% exemption, followed by five years of 50% exemption.

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## Project Financing

The Developer is investing 25% equity, or \$808,750, and will be privately financing \$2,426,249. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan at a 5.00% interest rate resulting in an annual principal and interest payment of \$172,148.

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## Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, and the operating expenses. The Developer is proposing a rent of \$1,175 per month for each unit. The Developer provided estimates of annual operating expenses, as follows; Maintenance - \$12,000, Administration - \$25,168, Property Tax (PFM adjusted estimate) - \$40,450, Utilities - \$10,062. The total expenses, assuming the Developer pays full real estate taxes, are approximately 35% of gross operating income. PFM used the given assumptions for Year 1 and, using a 1.5% inflationary factor for expenses and 1.00% for revenues, developed a 10-year cash flow. PFM assumed a vacancy rate of 8% for each year the project is operating.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over the 10-year period. That value, along with the net operating income cash flows, was used to calculate the internal rate of return. PFM determined that without PILOT assistance the Developer would have about a 3.90% internal rate of return. The Developer would have about a 7.15% internal rate of return if it received the public assistance for the full 10 years. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio of 1.01x without assistance in the first 10 years with a Year 4 coverage of 0.97x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.20x with a Year 4 coverage of 1.19x. The minimum coverage of 1.08x occurs in Year 6 when the exemption drops from 100% to 50%. Debt coverage is important to developers when securing financing for their projects. Many times banks will require a minimum coverage in the range of 1.10x – 1.50x. The debt service coverage is low for this project due to the minimum, upfront equity contribution which results in more debt.

Using PFM's "without assistance" cash flow as the base scenario, PFM ran sensitivity analyses in order to determine if the project would be likely to occur without public assistance. For the first sensitivity analysis, PFM analyzed how much project funds would have to decrease in order to produce a reasonable internal rate of return. We also looked at how much the rental rates would have to fluctuate in order to achieve a reasonable internal rate of return. Lastly, we looked at a combination of the two scenarios. For the sensitivity analyses, we assumed a minimum internal rate of return of 7.15%.

### **Sensitivity Scenario 1 – Project Costs**

The project would have to be reduced by \$224,999 or 6.96% in order for the project to become viable without assistance. This reduces the amount to be financed from \$2,426,249 to \$2,257,500 and reduces the annual debt service payment from \$172,148 to \$160,175. In order to obtain a higher IRR of 10% without assistance, project costs would have to be reduced by \$416,999 or 12.89%. This scenario would reduce the amount to be financed from \$2,426,249 to \$2,113,500 and reduce the annual debt service payment from \$172,148 to \$149,958. It is somewhat unlikely that a reduction in project costs of this magnitude would occur at this stage in the process, especially in the current inflationary market.

### **Sensitivity Scenario 2 – Rental Rates**

In order for the project to be viable without public assistance, the rental rate would have to increase by 11.00%. This increases annual revenue from \$261,386 to \$289,992 in Year 5. In order to obtain a higher IRR of 10% without assistance, the rental rate would have to increase by 20.25%. This increases annual revenue from \$261,386 to \$314,046 in Year 5. PFM believes this is a large increase to rents and is unlikely to occur.



### **Sensitivity Scenario 3 – Combination of Project Costs and Rental Rates**

The final scenario looks at both a reduction of project costs and an increase in rental rates. The analysis showed that project costs would have to be reduced by \$138,499 or 4.28% and rental rates would have to increase by 4.20%. In order to obtain a higher IRR of 10% without assistance, project costs would have to be reduced by \$255,999 or 7.91% and rental rates would have to increase by 7.80%. Both of these options occurring is unlikely, but it is possible so it should be considered.

The above scenarios show the circumstances in which the project would become viable without public assistance. Based on the information provided PFM's analysis demonstrates that the project as currently anticipated is unlikely to occur "but-for" the public assistance.

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## Conclusion

The Developer will bear all the risk involved with the project. The Developer is dependent on a number of factors before and after the project is completed, including project costs, occupancy of the units, the rental market, and monthly expenses. Both the internal rate of return without assistance and the debt service coverage are very low. The base scenario without assistance along with the sensitivity analyses demonstrate that the project would likely not be feasible without assistance.

PFM determines that with public assistance, based on 5 years of 100% property tax exemption followed by 5 years of 50% exemption, the Developer's internal rate of return, based on the assumptions outlined in this report, would be 7.15%. Furthermore, the Year 4 debt coverage ratio increases from 0.97x to 1.19x when assistance is provided. Based upon the information provided, the project would not be feasible "but-for" public assistance as it is currently shown by the Developer.

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