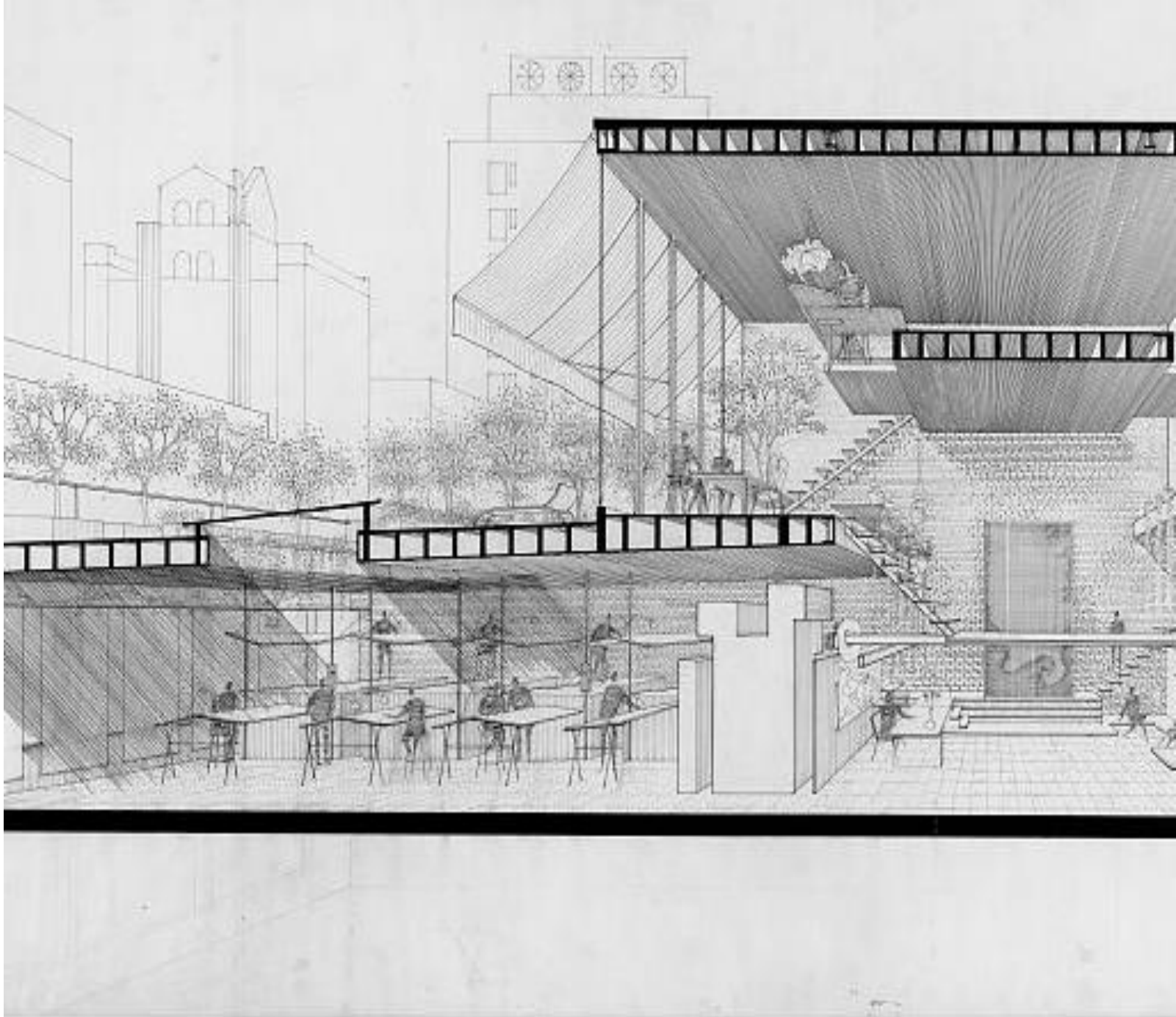


Rudolph Building Project by Revitalizing Revitalization Corporation (RRC)

Presenters: Group #2

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The background image shows a city street scene. On the left, there's a tall, modern glass skyscraper. Next to it is a large, ornate, light-colored building with many windows. In the foreground, a white trolley with red and blue stripes is visible on the street. The sky is clear and blue.

About the Company: Revitalizing Revitalization Corporation (RRC)

Goal and Mission:

- RRC's goal is to redevelop "Main Street" in River City's Dounanowt neighborhood.
- We strive to do this by providing affordable housing and retail opportunities to residents.

Rudolph Building Specs

- Held vacant by local speculator for over a decade
- Three floors and 18,000 total square feet
- Bottom floor retail, upper two floors residential
- 20 one-bedroom apartment units
- 6,000 square feet of retail space
- Asking price: \$300,000
- Rehab estimate: \$105/sqft of retail, \$210/sqft of residential
- Professional fees, taxes, insurance, and permits estimate: 10% of construction costs
- Developer fee: \$450,000





Rents and operations

- Rents:
 - Apartments @ \$1,350/mo
 - Retail @ \$18/sqft annually
 - 2% annual increase
- Expenses:
 - Apartments @ \$525/mo
 - Retail @ \$6/sqft annually
 - \$18,000 annual replacement reserves
 - 3% annual increase
- Vacancies:
 - Apartments @ 20% (year 1) and 5% (stabilized)
 - Retail @ 33.33% (year 1) and 10% (stabilized)



Loan Terms & Requirements

- Construction and permanent financing provided by Titwaud Bank
- Construction loan @ 9% in equal installments over construction period
- Permanent loan @ 7.5% interest over 30 years
- Debt Coverage Ratio (DCR) must be 1.25 or greater
- Loan-to-value (LTV) ratio must be less than 0.75
 - Appraisal cap rate is 9%
- Cash on cash return to investors must be at least 12%
- Lease-up reserve required in year one

Figure 1: Rudolph Building (RRC) - Development Budget

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Land and Site Improvements	Costs	Percentage of Total Project Costs
Site Acquisition	\$300,000.00	6.89%
Closing Costs	\$0.00	
Total Land and Site Costs	\$300,000.00	
Project Construction Costs		
Hard Costs		
Retail Space Rehabilitation Costs	\$630,000.00	72.30%
Residential Space Rehabilitation Costs	\$2,520,000.00	
Total Hard Costs	\$3,150,000.00	
Soft Costs (financed)		
Fees, Taxes, Insurance, and Permits	\$315,000.00	7.23%
Lease-Up Reserve		
Soft Costs (additional)		
Developer Fee	\$450,000.00	13.59%
Construction Loan Interest	\$141,883.00	
Total Soft Costs (financed)	\$315,000.00	100.00%
Total Soft Costs (additional)	\$591,883.00	
Total Project Costs	\$4,356,883.00	
Construction Loan Request		
Total Hard Construction Costs	\$3,150,000.00	
Total Soft Construction Costs	\$315,000.00	
Total Costs to be Financed/Direct Costs	\$3,465,000.00	
Estimated Interest Carry	\$141,883.00	
Total Loan Amount	\$3,606,883.00	

Construction Loan: Breakdown of Interest and Payments			
Month	Payment	Interest	Loan Balance
0	\$0.00	\$0.00	\$0.00
1	\$385,000.00	\$0.00	\$385,000.00
2	\$385,000.00	\$3,850.00	\$773,850.00
3	\$385,000.00	\$7,738.50	\$1,166,588.50
4	\$385,000.00	\$11,665.89	\$1,563,254.39
5	\$385,000.00	\$15,632.54	\$1,963,886.93
6	\$385,000.00	\$19,638.87	\$2,368,525.80
7	\$385,000.00	\$23,685.26	\$2,777,211.06
8	\$385,000.00	\$27,772.11	\$3,189,983.17
9	\$385,000.00	\$31,899.83	\$3,606,883.00
	\$3,465,000.00	\$141,883.00	

Operating Phase (Non-LIHTC)					
	Year 2	Year 3	Year 4	Year 5	Year 6
Income					
- Apartment Income	\$324,000.00	\$330,480.00	\$337,089.60	\$343,831.39	\$350,708.02
- Retail Income	\$108,000.00	\$110,160.00	\$112,363.20	\$114,610.46	\$116,902.67
GROSS POTENTIAL INCOME (GPI)	\$432,000.00	\$440,640.00	\$449,452.80	\$458,441.86	\$467,610.69
- Vacancy Allowance	\$(100,796.40)	\$(27,540.00)	\$(28,090.80)	\$(28,652.62)	\$(29,225.67)
Effective Gross Income	\$331,203.60	\$413,100.00	\$421,362.00	\$429,789.24	\$438,385.02
Expenses					
Expenses per month per apartment	\$126,000.00	\$129,780.00	\$133,673.40	\$137,683.60	\$141,814.11
Expenses annually retail per sqft	\$36,000.00	\$37,080.00	\$38,192.40	\$39,338.17	\$40,518.32
Annual Replacement Reserves	\$18,000.00	\$18,540.00	\$19,096.20	\$19,669.09	\$20,259.16
Total Operating Expenses	\$180,000.00	\$185,400.00	\$190,962.00	\$196,690.86	\$202,591.59
Other & Ratios					
NET OPERATING INCOME	\$151,203.60	\$227,700.00	\$230,400.00	\$233,098.38	\$235,793.44
- Less Debt Service	\$(305,399.24)	\$(305,399.24)	\$(305,399.24)	\$(305,399.24)	\$(305,399.24)
Lease Up Reserve	\$-	\$-	\$-	\$-	\$-
BEFORE TAX CASH FLOW	\$(154,195.64)	\$(77,699.24)	\$(74,999.24)	\$(72,300.86)	\$(69,605.80)
Cash on cash return (<u>> 0.12</u>)	-0.5140	-0.2590	-0.2500	-0.2410	-0.2320
Debt Coverage Ratio (<u>> 1.25</u>)	-0.4951	-0.7456	-0.7544	-0.7633	-0.7721
Loan to value (<u>< 0.75</u>)	2.1469	1.4256	1.4089	1.3926	1.3767

Summary of Sources and Uses	
USES (costs)	
Site acquisition	\$300,000.00
Hard Costs	
Retail	\$630,000.00
Residential	\$2,520,000.00
Soft Costs (to be financed)	
Fees, taxes, insurance, permits	\$315,000.00
Lease up reserve***	\$80,000.00
Soft Costs (other)	
Developer Fees	\$450,000.00
Construction interest	\$71,453.34
Total Uses	\$4,286,453.34
SOURCES	
Construction loan	\$1,816,453.34
Equity requirement	\$300,000.00
Financing gap	\$2,170,000.00
Total Sources	\$4,286,453.34
Total direct costs/costs to finance	\$1,745,000.00

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Lease-up reserve	\$80,000.00				
Effective Gross Income (EGI)	\$411,203.60	\$413,100.00	\$421,362.00	\$429,789.24	\$438,385.02
Total Expenses	\$180,000.00	\$185,400.00	\$190,962.00	\$196,690.86	\$202,591.59
NET OPERATING INCOME (NOI)	\$231,203.60	\$227,700.00	\$230,400.00	\$233,098.38	\$235,793.44
Less Debt Service	\$160,852.41	\$160,852.41	\$160,852.41	\$160,852.41	\$160,852.41
Estimated Property Value	\$2,568,928.89	\$2,530,000.00	\$2,560,000.00	\$2,589,982.00	\$2,619,927.10
BEFORE TAX CASH FLOW	\$70,351.19	\$66,847.59	\$69,547.59	\$72,245.97	\$74,941.03
DCR (>1.25)	1.44	1.42	1.43	1.45	1.47
LTV (≤0.75)	0.74	0.75	0.74	0.73	0.73
Cash on Cash Return (≥0.12)	0.23	0.22	0.23	0.24	0.25

Project Evaluation

Possible Financial Feasibility Alternatives

- 1) NMTC for retail, single entity mixed-use
- 2) Applying for (and receiving) LIHTC
- 3) Getting direct subsidy
- 4) Taking on a secondary mortgage

Using the Low-Income Housing Tax Credit (LIHTC)

- Development to now be restructured as a LIHTC project
- New assumptions:
 - LIHTC rents for apartments capped at \$957/mo
 - Apply 30% basis boost along with 9% credit to eligible costs because project is in a Qualified Census Tract (QCT)
 - Acquisition price = 100% land value (no value in the building itself)
 - LIHTC investor will invest equity on the following terms:
 - \$0.75 per dollar of LIHTCs
 - 70% paid during construction, 30% at stabilized occupancy



Operating Phase (LIHTC)					
	Year 2	Year 3	Year 4	Year 5	Year 6
Income					
- Apartment Income	\$229,680.00	\$229,680.00	\$229,680.00	\$229,680.00	\$229,680.00
- Retail Income	\$108,000.00	\$110,160.00	\$112,363.20	\$114,610.46	\$116,902.67
GROSS POTENTIAL INCOME (GPI)	\$337,680.00	\$339,840.00	\$342,043.20	\$344,290.46	\$346,582.67
- Vacancy Allowance	\$(81,932.40)	\$(22,500.00)	\$(22,720.32)	\$(22,945.05)	\$(23,174.27)
Effective Gross Income	\$255,747.60	\$317,340.00	\$319,322.88	\$321,345.42	\$323,408.41
Expenses					
Expenses per month per apartment	\$126,000.00	\$129,780.00	\$133,673.40	\$137,683.60	\$141,814.11
Expenses annually retail per sqft	\$36,000.00	\$37,080.00	\$38,192.40	\$39,338.17	\$40,518.32
Annual Replacement Reserves	\$18,000.00	\$18,540.00	\$19,096.20	\$19,669.09	\$20,259.16
Total Operating Expenses	\$180,000.00	\$185,400.00	\$190,962.00	\$196,690.86	\$202,591.59
Other & Ratios					
NET OPERATING INCOME	\$105,747.60	\$131,940.00	\$128,360.88	\$124,654.56	\$120,816.82
- Less Debt Service	\$(69,669.32)	\$(69,669.32)	\$(69,669.32)	\$(69,669.32)	\$(69,669.32)
Lease Up Reserve	\$30,000.00	\$-	\$-	\$-	\$-
BEFORE TAX CASH FLOW	\$36,078.28	\$62,270.68	\$58,691.56	\$54,985.24	\$51,147.50
Debt Coverage Ratio (> 1.25)	1.5179	1.8938	1.8424	1.7892	1.7341
Loan to Value Ratio (< 0.75)	0.5555	0.4452	0.4576	0.4712	0.4862
Estimated FMV	\$1,174,973.33	\$1,466,000.00	\$1,426,232.00	\$1,385,050.64	\$1,342,409.11

Assessment

- With lease-up reserve of \$30,000 & \$3,435,412.50 with LIHTC basis boost
 - Project satisfies debt coverage, cash-on-cash return, and loan-to-value ratios
 - $DCR > 1.25$
 - $LTV \leq .75$
 - $Cash-on-cash \geq .12$

Debt Coverage Ratio	1.5179	1.8938	1.8424	1.7892	1.7341
Cash-on-Cash Return	0.1203	0.2076	0.1956	0.1833	0.1705
Loan to Value Ratio	0.5555	0.4452	0.4576	0.4712	0.4862