



Arundel Community Development Services, Inc.

Kathleen M. Koch, Executive Director

April 17, 2019

Teresa Sutherland, City Manager
City of Annapolis
160 Duke of Gloucester
Annapolis, MD 21401

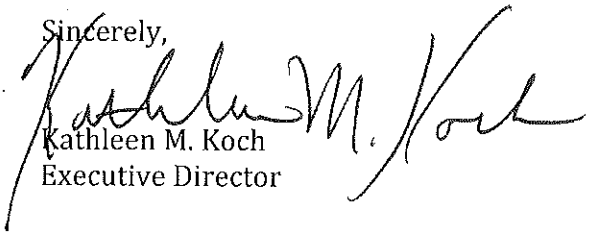
Dear Ms. Sutherland:

Pursuit to the Agreement among the City of Annapolis, Arundel Community Development Services, Inc. (ACDS) and Towne Courts, LLC, enclosed is an analysis of Towne Courts, LLC request for a PILOT in connection with their proposed project.

The analysis completed by ACDS includes a financial and programmatic analysis of the owner's need for a PILOT. Based on the analysis, ACDS is recommending the City of Annapolis approve the PILOT request as the proposed project for 37 new affordable units would not be financially viable without it.

Please do not hesitate to contact me should you need any changes to the enclosed report, or if you have any questions.

Sincerely,


Kathleen M. Koch
Executive Director

KMK:ad

Enclosures

1. PILOT Analysis
2. Cost Comparison
3. Operating Cost Analysis
4. Tax Assessment
5. Vacancy Analysis with/without PILOT
6. Sample Agreement

cc: Theresa Wellman, City of Annapolis

K:\Planning\Planning Documents\Rental Housing Production Program\Towne Courts\ltr_Teresa Sutherland.Cover.Towne Courts.2019.docx

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info@acdsinc.org
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Towne Courts Multifamily Rental Housing Complex

PILOT ANALYSIS

April 2019

Project Description

Towne Courts, LLC, which consists of the nonprofit organization Housing Initiative Partnership (HIP) and the for profit developer PIRHL, has proposed a 42 unit family style apartment complex on a 4.77 acre site located on 2010 West Street, in the City of Annapolis.

The proposed complex will be located in an ideal location close to employment, services, transportation and good schools.

This project is structured to serve all levels of income. Of the 42 units, seven (7) units will serve families at 30 percent and below the area median income; six (6) units will serve families at 40 percent and below the area median income; eleven (11) units will serve families at 50 percent and below the area median income; thirteen (13) units will serve families at 60 percent and below the area median income; and five (5) units will be made available to households at market rate rents.

The project will provide eight (8) 2-bedroom units and thirty-four (34) 3-bedroom units along with a freestanding community building, which will be made available to the broader neighborhood for meetings and activities. The property will be managed by Habitat America who have 30 years of experience in managing affordable rental housing. Habitat America has a reputation for excellent management and have extensive knowledge of compliance requirements imposed by the various funding sources.

Project Financing

Sources

| | |
|--------------------------------------|---------------------|
| Low Income Housing Tax Credit Equity | \$ 14,398,560 |
| Private Loan | \$ 3,519,424 |
| DHCD Rental Housing Works | \$ 1,790,000 |
| Weinberg Foundation | \$ 204,108 |
| Column Financial | \$ 857,956 |
| Developer Equity (deferred fee) | \$ <u>1,114,806</u> |
| | \$ 21,884,854 |

Uses

| | |
|------------------------|-------------------|
| Acquisition | \$ 4,340,000 |
| Pre-Development | \$ 1,597,609 |
| Construction | \$ 11,428,251 |
| Financing Fees/Charges | \$ 1,857,783 |
| Developer Fees | \$ 2,240,761 |
| Syndication Costs | \$ 177,093 |
| Guarantee and Reserves | \$ <u>243,357</u> |
| | \$ 21,884,854 |

Sources and Uses Analysis

The total project cost of \$21,884,854 or \$521,068 per unit is high when compared to other projects analyzed by ACDS. Although the construction cost is comparable to other projects, the acquisition cost of \$4,000,000 or \$95,238 per unit is extremely high. This high cost can be publicly supported because of its prime location to jobs, services, and transportation.

The Low Income Housing Tax Credit equity will provide approximately 66 percent of the cost, followed by a must pay private loan amortized over 35 years with a balloon payment at the end of 15 years. The DHCD Rental Housing Works Loan is a cash flow loan, with the Weinberg Foundation funds and the funds from Column Financial being provided as a loan without payments and forgiven as long as the affordable units are provided over a 40 to 50 year term.

Income and Expenses Analysis

The income to be received is limited by the households to be served and the limited rents allowed under the Low Income Housing Tax Credit Program. Twelve (12) of the units will receive a rental subsidy through the Project Based Section 8 Program and the Section 811 Supporting Housing for People with Disabilities Program. An additional two units will be set aside to serve formerly homeless families with restricted rent of only \$100 per month. The total projected first year annual income based on a five percent vacancy rate is approximately \$575,000.

The operating expenses estimated at the time of lease up, without a PILOT are approximately \$330,579 or \$7,871 per unit. The developer has requested a first year PILOT payment of \$7,672, which reduces the expenses by approximately \$24,328 per year. The operating expenses with the PILOT are estimated to be \$306,341 or \$7,294 per unit. The operating expenses were compared to similar projects financed by ACDS, and found to be reasonable. The last similar project financed by Arundel Community Development Services, Inc. (ACDS) was a 48 unit complex in Odenton in 2014 where the expenses with a PILOT were \$6,121 per unit. Allowing for annual increases and inflation, Towne Courts estimated operating expenses of \$7,294 per unit with a PILOT are reasonable.

PILOT Request

Based on a property value of \$4.3 million as estimated by the State Assessment Office, the property would pay approximately \$32,000 per year in City of Annapolis taxes. The owner is requesting a PILOT of \$7,672 which would reduce the taxes by \$24,238.

Financial Need for PILOT

The review of the income and expenses clearly indicates that this project would not be financially stable, nor meet the underwriting requirements of first mortgage lender without the approval of a PILOT for the City of Annapolis property taxes. The first mortgage lender will be providing a must pay loan in the amount of \$3,519,424 at 5.7 percent amortized over a 35 year term, due in 15 years. An accepted industry standard of 1.15 percent debt-to-income coverage is required to obtain approval for this loan amount. An analysis of the reduction necessary to

achieve the required coverage of 1.15 percent demonstrates the need for a City of Annapolis PILOT in the amount of \$7,672. Without the PILOT, the debt-to-income ratio is 1.05 percent; with the PILOT, the debt-to-income ratio increases to the required 1.16 percent. The PILOT will allow the property to meet all other expenses without comprising services or lender requirements and will ensure that the property remains affordable to low and very low income households for the next 40 years.

Recommendations

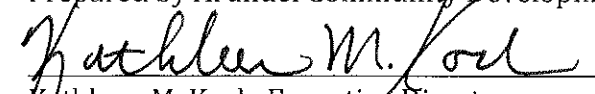
ACDS recommends the City of Annapolis approve the PILOT request because without a PILOT, the project would not be financially viable. The analysis show that a PILOT is needed mainly due to the high land cost. However, this project provides 42 affordable units in an ideal location close to transportation, jobs and services –and in our opinion – is a good investment of tax dollars.

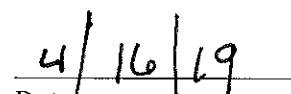
Based on the overall analysis, ACDS recommends approval of a City of Annapolis PILOT Agreement which (i) provides for holding the taxes at the determined base rate of \$7,672 for the first year; (ii) increasing the payment by an annual adjustment factor of four percent for the term of the Agreement; (iii) establishing the term of the Agreement to coincide with the term of the Extended Use Covenant for the Low Income Housing Tax Credits of 40; (iv) requiring that for the 40 year term, the owner restrict the income and units so that seven units serve households at 30 percent and below the area median income, six units serve households at 40 percent and below area median income, 11 units serve households at 50 percent and below the area median income, and 13 unit serve households at 60 percent and below the area median income; and (v) requiring the owner to submit audited financial statements and project expenses every five years to the Finance Office for review to determine if the PILOT is still needed; and (vi) requiring an analysis of the financial need and City Council approval if the property is sold, transferred or the sale of the partnership interest in lieu of the sale of the property occurs. Attached is a draft of a sample agreement.

Attachments

1. Project Cost Comparison
2. Operating Cost Analysis
3. Tax Assessment
4. 20-year Proforma
5. Sample Agreement

Prepared by Arundel Community Development Services, Inc.


Kathleen M. Koch, Executive Director


Date

Towne Courts / Berger Square Project Cost Comparison

April 2019

An analysis of the CDA 202 form for both Berger Square and Towne Courts has been completed to compare the percentage differences of the major cost components for each project, as shown below.

| Item | Berger Square | Towne Courts | Comments |
|---------------------------|---------------|--------------|------------------------------------|
| Construction Cost | 56% | 52% | |
| Construction Project Fees | 14% | 8% | Berger High Tap Fees |
| Financing Fees | 3% | 8% | Towne High Lender Origination Fees |
| Acquisition | 12% | 20% | Towne High Acquisition Cost |
| Developer Fee | 12% | 10% | |
| Syndication Cost | 1% | 1% | |
| Reserves | 2% | 1% | |

Summary

It appears Towne Courts has high Lender Origination Fees and higher Acquisition cost when compared to the Berger Square project. Otherwise, the allocation of costs between the projects are relatively comparable.

As indicated below, a square foot construction cost analysis between the two projects indicates the adjusted square foot costs are comparable.

| | Berger Square 2014 | Towne Courts |
|--|--------------------|-----------------|
| General Requirements | | \$ 7.93 |
| Construction Cost | \$ 115.33 | \$ 139.82 |
| Builder's Profit & Overhead | \$ 7.55 | \$ 11.89 |
| Bonding/Other | \$ 1.12 | \$ 1.40 |
| Total SF Cost | \$124.00 | \$161.04 |
| Cost Escalation - Adjusted 25% for Berger | \$ 31.00 | |
| Adjusted Square Foot Cost | \$155.00 | \$161.04 |

Prepared By:

William F. Gibbons
 William F. Gibbons, Project Director

4/5/19
 Date

Towne Courts Multifamily Rental Housing Complex

OPERATING COST ANALYSIS

of Comparable Projects Financed by ACDS

April 2019

| Property Name | Year Built | Operating Expenses with PILOT |
|------------------------|-------------------|--------------------------------------|
| Towne Courts | | \$306,341/42 = \$7,294 per unit |
| Berger Square | 2014 | \$293,785/48 = \$6,121 per unit |
| Hammerlee | 2011 | \$249,407/55 = \$4,535 per unit |
| Marley Meadows | 2011 | \$197,784/36 = \$5,494 per unit |
| Greens at Hammond Lane | 2010 | \$412,830/90 = \$4,587 per unit |

TAX ASSESSMENT

From: Darcy Good [<mailto:fngood99@aacounty.org>]
Sent: Wednesday, March 27, 2019 12:38 PM
To: Kathleen Koch <KKoch@ACDSINC.org>
Cc: Helen Shomberg <fnshom01@aacounty.org>
Subject: Fwd: Towne Courts

Hi Kathy,

Here is the estimated assessment information from SDAT that you requested. Please let me know if you need anything additional.

Darcy

Darcy Good, CPFO
Tax Billing Manager
Anne Arundel County, Maryland
44 Calvert Street, Room 110
Annapolis, MD 21401
[410-222-2312](tel:410-222-2312)

----- Forwarded message -----

From: **John Scally -SDAT-** <john.scally@maryland.gov>
Date: Wed, Mar 27, 2019 at 9:07 AM
Subject: Re: Towne Courts
To: Darcy Good <fngood99@aacounty.org>

Hello

I have attached our estimate below. Whenever we value a Section 42 property, we have specific procedures we have to follow so as not to incorporate the value of the federal tax credits. We use a higher cap rate and expenses compared to the market to account for this. In my estimate you can see the differences in the Section 42 income stream and market income stream. If the project was not a Section 42 the income value would be very close to the cost estimates provided at around 10 million. If anyone has any questions please let me know.

thanks

--

John Scally
Acting Supervisor of Assessments
SDAT, Anne Arundel Office
Maryland State Department of Assessments &



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On Wed, Mar 20, 2019 at 4:59 PM Darcy Good <fngood99@aacounty.org> wrote:

Hi John,

I received this request for information related to a possible PILOT. Are you able to provide estimated assessments for this project?

Let me know if you need me to ask them for any additional information.

Thanks!

Darcy

Darcy Good, CPFO
Tax Billing Manager
Anne Arundel County, Maryland
44 Calvert Street, Room 110
Annapolis, MD 21401
[410-222-2312](tel:410-222-2312)

----- Forwarded message -----

From: **Kathleen Koch** <KKoch@acdsinc.org>

Date: Wed, Mar 20, 2019 at 2:06 PM

Subject: Towne Courts

To: Darcy Good <fngood99@aacounty.org>

Hi Darcy,

We are in the process of looking at recommending a PILOT for City taxes for the proposed Towne Courts project. Towne Courts is a project consisting of 42 apartment units at 2010 West Street in Annapolis financed with Low Income Housing Tax Credits enabling them to provide 37 units affordable to families at 60% and below of the medium income. Five units will be available as market rate units. In order to let our elected official know the amount of revenue they will be forgoing if they approve the PILOT, we need to estimate what the taxes on this proposed project would be without the PILOT. Attached is an estimate of what the taxes would be as prepared by the developer of this project. Also, in case it is

needed, attached is the estimated cost for building this project. Your help in reviewing this information and letting me know if the developer's estimate of taxes is correct is greatly appreciated.

Please let me know if you need any additional information. Thanks!

Kathleen M. Koch
Executive Director
Arundel Community Development Services, Inc.
2666 Riva Road, Suite 210
Annapolis, MD 21401
410-222-7606

Towne Courts LLC- Pilot

Section 42 units

| | |
|------------------|-------------------------------|
| Potential Rent | *37 units at \$1,160= 515,194 |
| Vacancy 5% | -25,760 |
| Effective Income | \$489,434 |
| Expenses 45% | -220,245 |
| Reserves 3% | -14,683 |
| NOI | 254,506 |
| Cap rate | 6.50% |
| eff tax rate | 1.39% |
| Value | \$3,225,700 |

Market Units

| | |
|------------------------------|-------------|
| 5 units at \$2,000 = 120,000 | |
| Vacancy 5% | -6,000 |
| Effective Income | 114,000 |
| Expenses 35% | 39,900 |
| Reserves 3% | 3,420 |
| NOI | 70,680 |
| Cap rate | 5.00% |
| eff tax rate | 1.39% |
| Value | \$1,106,100 |

Total project value- \$4,331,800

* rent from developer's estimates