

COMMUNICATION
URBAN DESIGN REVIEW BOARD

CITY OF DES MOINES, IOWA

JULY 25, 2017 MEETING

Subject:	Recommendation	Prepared by:
FINANCIAL ASSISTANCE REVIEW OF 701 WALNUT STREET (FORMER YOUNKERS SITE)	X APPROVE DISAPPROVE NO ACTION OTHER	CARRIE KRUSE CAKRUSE@DMGOV.ORG 283-4012
Attachment Listing: http://www.dmgov.org/government/boards/UrbanDesignReviewBoard/Pages/Meetings.aspx		

Summary:

On May 16, 2016, Blackbird Investments, LLC (Justin Doyle, Ryan Doyle, Harry Doyle, Hugh O'Hagan, TJ Jacobs, and Jimmy Becker, 130 East 3rd Avenue, Des Moines, Iowa 50309) presented design revisions to the Urban Design Review Board for their project located at 701 Walnut Street, that included an increase in building height from 26 to 33 stories, and an increase in housing unit counts from 276 to 336. Total anticipated project costs have also increased from \$80 million to \$88 million.

Additional revisions to the project since the review on May 16, 2017 include changes to the permanent financing sources as well as the addition of an affordable housing mix into the housing units of the tower. Blackbird Investments is proposing that approximately 20% of the housing units in the tower be at an affordable rental rate for families and individuals earning 50% of area median income (AMI) or less. The permanent financing is proposed to change from a HUD 221(d)(4) product to a HUD backed Freddie Mac financing product. The Freddie Mac financing product will provide a quicker and more direct path for the project to begin. Construction on the project is to commence by December 1, 2017 and completion of construction is estimated by December 1, 2019.

With the affordable housing mix, the project will be eligible for and will seek approximately \$6 million in Low Income Housing Tax Credits. Tax increment Financing (TIF) assistance recommended for the \$88 million project is proposed to be paid out as ten annual economic development grant installments of \$553,434 (\$4,379,168 NPV at a 4.5% discount rate) in years 1-10 coinciding with the declining tax abatement. The economic development grant is being recommended to fill the financing gap between what the low income housing tax credits will provide versus what the rental rates would otherwise be. Additional information on the project's updated sources, uses and a comparison of the previous TIF incentive terms versus the updated recommendation for TIF assistance can be found below.

Scope of Review – Board to make recommendation to City Council on:

- Design review of renovation /remodeling/new construction for City-owned or leased project.
- Design review for urban renewal project with specific development requirements.
- Whether a proposed urban renewal project qualifies for funding from tax increment.
- Whether the level of financial assistance funded from tax increment revenues proposed for a specific individual project are reasonable and appropriate.

- The selection of urban renewal sites for clearance or rehabilitation and problems relating to acquisition, clearance or rehabilitation of property, relocation of displaced persons and disposition of acquired property.
- Skywalk System
- Other

Urban Design Review Board Action: The Board is asked to make its recommendation to City Council on whether the revised level of financial assistance funded from the Metro Center Tax Increment Financing district proposed for the project are reasonable and appropriate.

Staff Recommendation: Approval

Background:

The Urban Design Review Board previously reviewed and approved financial assistance for this project when the tower was anticipated to be 100% market rate and 26 stories on October 4, 2016. At that time, assumptions for project costs and associated Tax Increment Financing assistance was as follows:

Tax increment (TIF) assistance recommended for the \$80 million project is proposed to be paid out over 10 years (years 11-20 of the project). The assistance will come from tax increment generated solely by the project, in the Metro Center Urban Renewal Area.

Total Project Cost:	\$80,204,881
Estimated TIF Assistance (NPV, 6%)	4,215,630
Assistance as % of cost	5.3%

With the change to include the approximately 20% affordable mix in the anticipated 33 story tower, the TIF assistance recommended for the now \$88 million project is proposed to be paid out over 10 years in years 1-10 coinciding with the tax abatement. The breakeven point for the tax incentive remains at year 20 as previously granted under the current terms of the development agreement. Updated summary of terms is as follows:

Total Project Cost:	\$87,937,322
Estimated TIF Assistance (NPV, 4.5%)	4,379,168
Assistance as a % of cost	5.0%

A side-by-side comparison of the previous incentive structure to the new incentive structure with updated assumptions for the number of stories, tax rates and discount rates can be found on the following page.

Blackbird 701 Walnut

Year	Assessment Date	Fiscal Year Payable	Existing Bldg Value	New Building valuation	Total taxable valuation (building)	Multiresidential valuation rollback	Original TIF Incentive Approved	Concurrent TIF/Tax Abatement from Metro Center TIF	Net Taxes remaining with taxing entities
1	1/1/2020	FY2022	\$0	33,000,000	\$0	67.50%	\$0	\$553,434	\$0
2	1/1/2021	FY2023	\$0	33,000,000	\$0	63.75%	\$0	\$553,434	\$0
3	1/1/2022	FY2024	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
4	1/1/2023	FY2025	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
5	1/1/2024	FY2026	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
6	1/1/2025	FY2027	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
7	1/1/2026	FY2028	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
8	1/1/2027	FY2029	\$0	33,000,000	\$0	56.94%	\$0	\$553,434	\$0
9	1/1/2028	FY2030	\$0	33,000,000	\$7,515,961	56.94%	\$301,252	\$553,434	\$0
10	1/1/2029	FY2031	\$0	33,000,000	\$11,273,942	56.94%	\$451,878	\$553,434	\$0
11	1/1/2030	FY2032	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
12	1/1/2031	FY2033	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
13	1/1/2032	FY2034	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
14	1/1/2033	FY2035	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
15	1/1/2034	FY2036	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
16	1/1/2035	FY2037	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
17	1/1/2036	FY2038	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
18	1/1/2037	FY2039	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
19	1/1/2038	FY2039	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958
20	1/1/2039	FY2040	\$0	33,000,000	\$18,789,903	56.94%	\$753,131		\$916,958

CASH
NPV
4.5%

\$8,284,436
\$4,331,055

\$5,534,341
\$4,379,168
\$9,169,582
\$4,672,102

Updated project Sources and Uses:

Sources				
	Construction / Perm Debt		\$ 54,534,695	62%
	Low Income Housing Tax Credits (10-yr NPV@2%)		\$ 6,086,137	7%
	Tax Increment Financing (10-yr NPV 4.5%)		\$ 4,379,168	5%
	Deferred Developer's Fee / Builder's Profit	50%	\$ 1,750,000	2%
	Land Contribution		\$ 4,000,000	5%
	LOC: Freddie Mac Forward Commitment Deposit		\$ 1,300,000	1%
	LOC: Working Capital & Operating Deficit Reserves		\$ 1,950,000	2%
	Equity		\$ 13,937,322	16%
Total Sources			\$ 87,937,322	100%

Uses				
	Construction Contract		\$ 68,161,368	78%
	Architecture & Engineering		\$ 2,726,455	3%
	Financing, Accounting, and Legal Fees		\$ 6,865,500	8%
	Land Cost		\$ 4,000,000	5%
	Developer Fee & Marketing		\$ 3,800,000	4%
	Reserves and Replacement Costs		\$ 2,384,000	3%
Total Uses			\$ 87,937,322	100%

Affordable versus Market Rate Rental Income Gap Comparison:

Proposed Incentive: Affordable Economic Grant					
Type	# of Units	Affordable		Market Rate	
		Rent	Income	Rent	Income
Studio	22	\$ 720	\$ 190,080	\$ 1,205	\$ 318,087
1 Bedroom	35	\$ 771	\$ 323,820	\$ 1,473	\$ 618,738
2 Bedroom	11	\$ 925	\$ 122,100	\$ 2,198	\$ 290,195
Floor Premium	N/A	N/A	\$ -	N/A	\$ 75,768
	68		\$ 636,000		\$ 1,302,788
				Annual Income Difference	\$ 666,788
				Offset Factor	83%
				Annual Economic Grant	\$ 553,434
				Cap Rate	6%
				Impact to Appraised Value	\$ (11,113,135)
				Low Income Housing Tax Credit	\$ 6,032,288
				Difference	\$ (5,080,847)