

**CITY OF OLYMPIA, WA
APPLICATION FOR SECTION 108 LOAN GUARANTEE**

FROM

**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT APPROVED**

**ECONOMIC DEVELOPMENT LOAN FUND
APPROVED – \$1,765,000**

**AVALON REDEVELOPMENT PROJECT
308 – 310 4th Avenue East, Olympia, WA 98501**

REQUESTED LOAN - \$500,000

August 31, 2017

Updated September 23, 2017

A. Introduction

The City of Olympia, WA established a Section 108 Economic Development Loan Fund to provide gap financing to facilitate key economic and community development projects located within the City of Olympia with a particular emphasis on the Downtown or neighborhood center areas that have experienced particular economic distress or blight in their commercial areas. The U.S. Department of Housing and Urban Development (HUD) approved the \$1,765,000 108 Economic Development Loan Fund in 2012. Olympia used \$325,000 in an initial project. This application represents Olympia’s 2nd 108 loan from the Fund.

Avalon Development Project

The City of Olympia acquired the Griswold’s site through a negotiated purchase on or about June 1, 2016. A Request for Proposal (RFP) was issued on July 25, 2016 as part of the City’s continuing efforts to revitalize its downtown pursuant to and in accordance with Washington State Community Renewal Law. Big Rock Capital Partners responded to the RFP and was chosen by the City to enter into exclusive negotiations for the sale of the property as a mixed-use development project. That agreement was executed on December 6, 2017 and both parties have continued pre-development feasibility work.

Big Rock Capital Partners is seeking to redevelop the Griswold’s site currently owned by the City of Olympia. The planned 28,000 square foot redevelopment will contain 30 residential units along with 5,900 square feet of ground floor commercial space. 27 of the residential units are studios with the remaining 3 as 1 bedroom – 1 bath apartments. 51% of the studios and 1- BR units will be set-aside and rented to households with incomes at or below 80% of area median income (AMI). (\$48,880 annually for a 2-person household) Currently the projected rent roll has 100% of the residential units with rents targeted to households at 80% of AMI. Affordability for 51% of the units will be maintained for the 20-year 108 loan period.

Total development costs are estimated at \$6,266,678 with the developers are seeking a \$500,000 Section 108 loan to support the project.

Preliminary Development Sources and Uses

Development Sources

Debt – Senior Bank Loan	\$ 4,383,225 (70%)
Debt – Subordinate 108 Loan	\$ 500,000 (8%)
City – Environmental Cleanup Contribution	\$ 120,000 (2%)
Equity – <u>Developer/Investor</u>	\$ 1,263,452 (20%)
Total – Sources of Funding	\$ 6,266,678

Development Uses

Site Acquisition	\$ 201,000 (3%)
Construction Costs (Hard Costs)	\$ 4,911,319 (78%)
Project Soft Costs	\$ 889,421 (14%)
Financing Costs	\$ 264,938 (4%)
Total – Development Costs	\$ 6,266,678

B. Section 108 Submission Requirements

1. Community Development Objectives

The Section 108 loan fund was established to address several of the City’s Strategic Plan Goals as referenced in the City’s *2013 – 2017 Consolidated Plan*, including:

- Maintain, enhance, and expand the supply of rental, homeownership, and special needs affordable housing for-low income populations
- Provide essential public services for low-income and special needs populations
- The acquisition of land to support the development of new affordable housing, public facilities, or infrastructure to meet the needs of low-income residents.

In addition, the Loan supporting the Avalon Development Project will support the following community development objectives as stated in the City’s *Comprehensive Plan*:

- Promote high-density housing downtown for a range of incomes
- Promote a variety of residential densities and housing types so that housing can be available in a broad range of costs.
- Promote partnerships between public and private non-profit organizations to increase housing and home ownership opportunities for people with special needs, and for low- and moderate-income households.
- Encourage and provide incentives for residences above businesses.
- Encourage adapting non-residential buildings for housing.
- Provide for a compatible mix of housing and commercial uses in commercial districts and village sites that enables people to walk to work and shopping, supports transit, and includes convenience businesses for residents.
- Take steps to ensure housing will be available to all income levels based on projected community needs.
- Continue to encourage development of single-room occupancy units downtown, along urban corridors, and in other areas where high-density housing is permitted. This could include encouraging alliances between public, private, and nonprofit organizations.
- Encourage new housing on transportation arterials and in areas near public transportation hubs.

- Enable frequent transit service, support housing, utilize existing infrastructure, provide public improvements and concentrate new major shopping, entertainment and office uses downtown, in the medical services area of Lilly Road, near the Capital Mall, and in the urban corridors.
- Collaborate with local economic development organizations to create new and maintain existing living-wage jobs.
- Encourage The Evergreen State College, St. Martin’s University, and South Puget Sound Community College to establish a physical presence in downtown.
- Continue to coordinate and partner with the Thurston County Economic Development Council to promote Olympia’s economic redevelopment opportunities.

Community Renewal Plan

In 2013, City Council accepted an Investment Strategy that addressed opportunities and challenges for redevelopment in Downtown, along with other areas around the City. This Strategy was a first of its kind commitment to a more proactive and coordinated approach to City investments in redevelopment activities. For Downtown, the Investment Strategy resulted in a conversation and eventual action regarding the use of Community Renewal, a state-authorized redevelopment tool.

The Community Renewal Law provides the City with tools to eliminate blight, to encourage private sector participation in Downtown renewal, to shape development in furtherance of the City’s goals of creating a safe and welcoming downtown for all, and to increase commerce and private investment. The designation of a Community Renewal Area (CRA) is a means to bring focus to an area with evidence of blight and utilize various tools made available under the Law. The City undertook a feasibility study for community renewal, which found that the downtown area met the statutory definition of blight. The feasibility study also recommended a CRA boundary.

On February 3, 2015, the Council passed Resolution 15-0119 (the “CRA Resolution”) making findings of blight, establishing a CRA boundary and directing staff to work with property owners and developers to identify specific actions for which community renewal powers would be appropriate. The adoption of this resolution gave the City a more formidable seat at the development table and should enable more viable and better-quality private redevelopment.

CRA Project: Former Griswold’s Property

On May 24, 2016, Olympia amended their Community Renewal Plan to specifically include the Griswold Property and actions since then have been consistent with that act. Added language included:

The City's first CRA project is the former Griswold property, located at 308-310 4th Avenue East. The City of Olympia is engaged in an ongoing effort to improve downtown Olympia. The former Griswold's property is in the heart of Olympia's Entertainment District along 4th Avenue with numerous restaurants, bars and theaters all within close proximity. The City sees this area as a key area for redevelopment of downtown that will have substantial positive impacts on the immediately surrounding properties as well as the broader downtown.

The City acquired this property in a willing-seller market transaction in June of 2016. The Griswold's building burned in a fire in 2004 and is a complete loss. The remaining shell structure has been vacant and abandoned for the twelve years since the fire. Currently, the building has had numerous code violations including violations for flaking exterior surface, lack of a roof, missing or boarded windows, and graffiti.

Project Objectives

The objective of the project is to eliminate the existing blight, and redevelop the property with a viable and productive use that will serve as a catalyst to support the economic vibrancy of downtown Olympia. Specifically, the City would like to redevelop the property as a mixed-use building. Residential housing is desired to support an increase in the population living downtown and overall vitality of the area. Retail uses on the ground floor are required on 4th Avenue, which is designated a "Pedestrian A" street, and would enhance the retail environment on 4th Avenue and downtown. The City would also like to return the property to the private market as contemplated in the Community Renewal Area law.

These objectives are consistent with the City's comprehensive plan, support a more walkable downtown and improved traffic, helps rehabilitate a deteriorating structure, and encourage private participation in downtown renewal.

Project Actions

To redevelop the Griswold's property and return it to productive use, the City plans to pursue a public-private partnership with a private developer. This process will require a mix of CRA and other tools to ensure that a sound and adequate financial program exists for the financing of the project and to quickly return the property to the private market.

2. Compliance with 24 CFR 570.208 - National Objectives.

Section 570.200(a)(2) requires that all CDBG activities meet one of three National Objectives. They include: 1) benefit to low and moderate income families; 2) aid in the prevention or elimination of slums or blight; and 3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available.

The loan for the Avalon Redevelopment Project meets the following National Objective:

§ 570.208 Criteria for national objectives.

The following criteria shall be used to determine whether a CDBG-assisted activity complies with one or more of the national objectives as required under § 570.200(a)(2):

- (a) *Activities benefiting low- and moderate-income persons.* Activities meeting the criteria in paragraph (a) (1), (2), (3), or (4) of this section as applicable, will be considered to benefit low and moderate income persons unless there is substantial evidence to the contrary.

In assessing any such evidence, the full range of direct effects of the assisted activity will be considered. (The recipient shall appropriately ensure that activities that meet these criteria do not benefit moderate income persons to the exclusion of low income persons.)

- (3) *Housing activities.* An eligible activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by low- and moderate-income households. This would include, but not necessarily be limited to, the acquisition or rehabilitation of property by the recipient, a subrecipient, a developer, an individual homebuyer, or an individual homeowner; conversion of nonresidential structures; and new housing construction.

The Avalon Redevelopment Project will contain 30 residential units: 27 studios and 3 one-bedroom units. The developer will set-aside 51% of the studios and 51% of the one-bedroom units for households at or below 80% of Area Median Income. Initial projections show that all units are affordable at 80% of area median income (AMI). The restrictions will last for the term of the 108 loan – 20 years.

CITY OF OLYMPIA, WA			
RESIDENTIAL AFFORDABILITY WORKSHEET			
UNIT TYPES			
	27	Efficiency / Studios	
	3	1-BR / 1 Bath Apartments	
	30	TOTAL	
		EFFICIENCY - STUDIO	1 BR - 1 BA UNIT
		1-Person Household	2-Person Household
Olympia - Thurston County Median Income - ¹	\$	76,300	
	\$	53,500	\$ 61,100
MFTE/ CDBG REQUIREMENT		80%	80%
Household Income To Be Served			
Annual Income	\$	42,800 ²	\$ 48,880 ²
Hourly Equivalent	\$	20.58	\$ 23.50
Maximum Affordable Rent - Including Utilities (30% of Income)	\$	1,070	\$ 1,222
Utility Allowance - ³	\$	53	\$ 69
Maximum Affordable Rent Level	\$	1,017	\$ 1,153
AVALON AFFORDABILITY OBJECTIVE - 51% OF UNITS AT 80% AMI			
Projected Monthly Rent	\$	1,017	\$ 1,153
Utility Allowance - ³	\$	53	\$ 69
Maximum Rent + Utilities	\$	1,070	\$ 1,222
Income Affordability Achieved			
Annual Income	\$	42,800	\$ 48,880
% Olympia - Thurston County Median Income		80%	80%
Hourly Equivalent	\$	20.58	\$ 23.50
100% of units will affordable at 80% of Area Median Income.			
¹ - Source: HUDUser.gov/portal/datasets/il/il2017 ² - Source: WSHFC.org/limits/detail.aspx?County=Thurston&Year=2017 ³ - Source: WSFC - Utility Allowances:Thurston County- Apartments			

3. Compliance with 24 CFR 570.703 – Eligible Activities

Each of the projects to be assisted with the Section 108 loan fund must be eligible under 24 CFR 570.703.

The Avalon Redevelopment Project qualifies under:

- 570.703 (g) – payment of issuance, underwriting, servicing, trust administration and other costs associated with private sector financing of debt obligations under this subpart.

- 570.703 (h) - rehabilitation of housing eligible under 570.202.

§ 570.202 Eligible rehabilitation and preservation activities.

(a) *Types of buildings and improvements eligible for rehabilitation assistance.*

CDBG funds may be used to finance the rehabilitation of:

- (1) Privately owned buildings and improvements for residential purposes;

4. § 570.209 -- Appendix A - Guidelines and Objectives for Evaluating Project Costs and Financial Requirements.

All activities eligible under Section 570.703 and some eligible under 570.204 must meet the requirements of Section 570.209. This section outlines underwriting guidelines for ensuring that a proposed project carries out a development objective in an appropriate manner. These guidelines under 570.209(a) are not mandatory but serve as a framework for financially underwriting development projects. The City of Olympia has developed underwriting guidelines consistent with 570.209 and described in greater detail in Section C below.

C. City's Underwriting Guidelines

- 1. Proposed Costs:** The analysis will compare estimated development costs to costs of similar properties. Also, the analysis will determine whether estimated development costs have been prepared by a credible third party such as a contractor or other cost estimator. Finally, the City's loan commitments will be conditioned on a final guaranteed maximum price contract for development within the proposed budget.

*The Avalon Development budget totals \$6,266,678. Development costs are estimated at \$185 Gross Sq. Foot or \$208,899 per unit. **These estimates are higher than some comparable projects as well as the \$5,720,000 construction cost estimated by the appraiser.** Some of this is due to construction escalation in the current market. However, the general contractor is an affiliate of the developer so there is an incentive to maximize construction efficiencies on behalf of the developer. Final costs will be confirmed by a private bank review and appraisal commissioned by the Bank lender.*

- 2. Commitment of Funds:** Section 108 loans should have commitments of construction and permanent financing. If private financing includes a right to adjust the interest rate after a certain point in time, the analysis will describe the effect of such a change on the Section 108 loan. Loan documents should contain adequate lender protections (e.g., default and cure privileges) for the City, subject to reasonable conditions of other lenders having priority over the Section 108 loan.

The developer has provided a preliminary Letter of Interest from a local lender. An

appraisal has been ordered by the Bank and a Commitment Letter/Term Sheet is expected to be issued soon. The City of Olympia will provide \$120,000 to fund required environmental remediation. These funds will be committed through a Purchase and Sale Agreement, a draft, of which, has been provided to the developer.

3. **Need for Public Assistance:** The analysis will determine whether the project can be developed feasibly with private financing alone or, in fact, requires public financial assistance to make the development feasible. City staff will examine the reasonableness of a for-profit developer’s fee compared to market rates. If the for-profit developer has an ownership stake in the project, Staff will also examine the reasonableness of the developer’s return under cash on cash return and internal rate of return (“IRR”). Cash on cash return measures the developer’s cash return on a cash investment [i.e., cash flow ÷ equity]. IRR measures the rate at which the developer’s investment grows over a long term period, taking into account periodic cash flows and property appreciation. As part of such analysis, an excessive developer fee/return will be reduced and put back into the project in the form of additional equity and/or additional reserves.

SOURCES:	Budget	% of Total
Debt - Senior	\$4,383,225	69.94%
Debt - HUD	\$500,000	7.98%
Olympia - Environmental Contribution	\$120,000	1.91%
Equity - Developer/Investor	<u>\$1,263,452</u>	<u>20.16%</u>
Totals	\$6,266,677	100.00%

*The required Developer Equity is estimated at \$1,263,452. The current projected cash flow provides for a Cash-on-Cash (Cash Flow / Cash Equity) **of 4.96% at project stabilization.** Typical current developments seeks returns ranging from 8% - 12%. It would not be reasonable to expect the developer to provide more equity – reducing its return further. Due to this, there is a need for public assistance to complete the project’s financing sources.*

4. **Evidence of Site Control:** Eligible projects must demonstrate evidence of an executed purchase and sale agreement.

The City of Olympia currently owns the site and selected Big Rock Partners through a competitive Request for Proposal (RFP) process. A Purchase and Sale Agreement has been drafted and circulated to the developer. Due to City control of land disposition and provision of 108 financing – site control is evident and ownership available at construction start.

5. **Payments/Amortization:** Section 108 loans may be amortized over the full term of the

loan (e.g., 20 year amortization for a 20 year loan); amortization greater than the term of the loan may be considered (e.g., 30 year amortization for a 20 year loan), if the anticipated financial condition of the project is sufficient to sustain a balloon payment at the end of the term.

The current application proposes a 20 year term for the 108 loan. The initial year will be interest-only with only interest payments due during construction. The balance of the loan is amortized (paid down) over the remaining 19 years.

7. **Ability to Repay:** The analysis will identify the primary, secondary and tertiary sources of repayment for the loan. A 1.2-projected debt coverage ratio is desired, however, a debt coverage ratio of 1.1 may be considered if the project's financial condition supports such a lower ratio (e.g., project has commitment of financially strong tenant(s) under long term lease).

Key repayment risks will be analyzed in detail, including an analysis of project financial assumptions compared to actual market conditions. Such analysis may take a variety of forms depending on the nature of the loan being financed. In cases of third party loans for development, the analysis will compare anticipated lease rates and vacancy rates to similar properties. Also, the analysis may examine the operating projections of the project and the debt capacity based on projected growth assumptions. The analysis will also describe the projected time frame to achieve project stabilization and whether reserves exist to guard against delay. Debt service reserves may also be required.

In addition, the City will reference appropriate supporting documentation, such as a recent appraisal and operating pro forma to support our analysis.

*A Financial summary is included as an appendix to the Application. The operating pro forma shows an initial Debt Service Cover (DCR) for the City 108 loan at 1.17 at project stabilization or slightly below the guidelines. **A local market study and appraisal have been completed for the project.** Rents projected for the Avalon Development are lower than comparable studio and 1-Bedroom units. With all rents targeted at 80% AMI there is an expected surplus of potential renters. A waitlist will begin soon and the project's property manager expects to be preleased prior to occupancy. **The appraisal estimates that the lease-up period for the project would take 3 months. The quick lease-up minimizes cash flow risk to the City.***

The commercial portion of the project requires rents (\$25 / SF) that are, a bit, higher than adjacent commercial properties due to the higher renovation costs for the project. This has been mitigated through a collaboration of the City, The Evergreen State College and the Thurston County EDC to fund and staff a business co-working space. An initial Letter of Intent (LOI) is being executed for an initial 5 Year period with extensions. The strength of the University and EDC minimizes risk to rent collection for this commercial space.

Operating expenses are projected as consistent with expenses shown in market studies and will be confirmed in the Bank ordered appraisal.

Due to affordable residential rents, a strong ground floor commercial tenant and consistent operating expenses the project pro forma provided is prudent and shows limited repayments risks on the provided 108 loan.

8. **Collateral:** Section 108 loans should have a loan to value ratio not to exceed 80 percent at project stabilization. This value must be supported by an appraisal prior to funding. The City's security interest will typically be in the form of a deed of trust. The analysis will first determine whether the loan to value ratio exceeds 80 percent, using the property being financed as the sole source of value. If such calculation exceeds 80 percent, the analysis will then determine whether there is sufficient outside collateral to add as value, in order to meet the loan to value requirement. In certain cases, HUD permits outside guarantees to suffice for additional collateral, depending on the resources and financials of the individuals or entities providing such guarantees. Consistent with customary underwriting practice, loan to value coverage will be determined at project stabilization (i.e., the point in time when the project has obtained the targeted debt coverage ratio). The analysis will also describe how, prior to stabilization, construction risk and lease-up risk will be mitigated. The analysis will also identify key mitigation issues such as construction contingencies, reserves, guaranteed maximum price contract, and experience of the development team.

*As shown in the provided financial summary, at stabilization (full lease-up) to combined **senior debt/108 loan Loan-To-Value (LTV) is 69%. That is, the combined loans are 69% of the estimated Fair Market Value of the project.** This is lower than the 80% LTV guideline.*

9. **Development Team Capacity and Experience:** Projects to be funded should have a development team that has both the capacity and demonstrated experience to complete the project as evidenced by past projects of similar size and scope, as well as financial strength. The analysis will include (i) resumes of development team members and (ii) a list of prior comparable projects completed by development team members with a description of project size and cost, and whether such projects were completed on time and on budget. In addition, the analysis will describe development team members' experience with public funding sources and accompanying regulations as applicable (e.g., housing tax credits, Davis-Bacon).

Avalon represents Big Rock Capital's 4th development project. Prior developments totaled \$31 million and the firm currently has \$20 million in assets under management. The equity requirements are well within the firm's experience.

The remaining development team – MSGS Architects and Big Rock Construction have

extensive experience in development and have work together on many initiatives. Prior and current development conversations have been well received as well as several community meetings describing the project. The team is well versed in this type of mixed use development; are all local Olympia-based firms and have extensive experience with City code and development practices. The team has a strong property manager with extensive local experience.

- 10. Developer / Owner Commitment:** Developer / owner commitment can take many forms. These commitments can include: developer / owner equity, guarantees of completion, guarantees to fund shortfalls or guarantees of minimum cash flow. The developer's financials will also be examined and analyzed.

Final confirmation of required equity will be provided before closing but is well within their prior experiences. Even though the initial projections show underwriting ratios (debt service cover and loan-to-value) within guidelines, the City will require subordinated security in the real estate and personal and corporate guarantees of the development firm and investors.

- 11. Origination Fee to City:** The City of Olympia may assess a fee of up to 3.5% of principal amount. This fee shall be used to pay for the City of Olympia's direct and indirect costs in underwriting and managing the loan program including third party costs of consultants, trustee expenses, legal fees, or other program income-eligible expenses.

The City will charge a fee consistent with those charged by HUD. A 108 loan guarantee fee (2.5%) and a pro-rata share of hud closing costs (.6%) are projected in the development budget. If there are changes to this third-party HUD fees, the development requirements will adjust accordingly. Once closed there will be a custodian management fee of approximately \$3,000 to manage the 108 structure with HUD. The developer will be responsible for this fee as well.

- 12. Project Monitoring:** Throughout the duration of a project, the City will monitor fund recipients, including on-site visits as appropriate. The objective of monitoring activities will be to determine the status of funds and to ensure that projects are being administered properly and in accordance with the Loan Agreement, special program requirements, and applicable City, State, and Federal laws, rules and regulations.

The City will work with the senior bank lender on bank required construction reviews as well as cooperate with the Bank on construction draw reviews along with the requirement for a third-party construction reviewer.

D. Pledge of CDBG Guarantee

The City of Olympia understands that if the participants in this Section 108 loan fund fail to make timely payments and the City of Olympia therefore fails to make a required

payment on its notes, HUD will deduct that payment from the City of Olympia’s CDBG Letter of Credit and in accepting this loan guarantee, the City of Olympia will pledge its CDBG funds and all other applicable grants as security for the guarantee. The City will not pledge its general fund assets on behalf of HUD.

E. Schedule for City’s Repayment of Loan

In requesting approval of this loan guarantee the City of Olympia is requesting a commitment for a 20-year term for the Economic Development Loan Fund. The City of Olympia will act as the borrower and issue the guaranteed debt obligations, consistent with RCW 35.21.735. The following initial principal repayment schedule is below.

<u>Date:</u>	<u>Principal:</u>	<u>Date:</u>	<u>Principal:</u>
August 1, 2018	0	August 1, 2030	28,000
August 1, 2019	19,000	August 1, 2031	29,000
August 1, 2020	20,000	August 1, 2032	29,000
August 1, 2021	21,000	August 1, 2033	30,000
August 1, 2022	21,000	August 1, 2034	31,000
August 1, 2023	22,000	August 1, 2035	32,000
August 1, 2024	23,000	August 1, 2036	33,000
August 1, 2025	24,000	August 1, 2037	36,000
August 1, 2026	24,000		
August 1, 2027	25,000		
August 1, 2028	26,000		
August 1, 2029	27,000		
	TOTAL		500,000

F. City of Olympia Contact
Keith Stahley, Director
 Community Planning & Development
 City of Olympia
 601 4th Avenue, E.
 Olympia, Washington 98507
 Ph: (360) 753-8314

SOURCES AND USES OF FUNDS

The Avalon

SOURCES:	Budget	% of Total
Debt - Senior	\$4,378,994	69.88%
Debt - HUD	\$500,000	7.98%
Olympia - Environmental Contribution	\$120,000	1.91%
Equity - Developer/Investor	<u>\$1,267,683</u>	<u>20.23%</u>
Totals	\$6,266,677	100.00%
USES:	<u>Total</u>	<u>Per GSF</u>
Acquisition Cost		
Land	\$201,000	\$5.93
Development Budget		
Hard Costs		
Residential & Commercial Shell	\$3,926,614	\$115.83
Commercial Tenant Improvements	\$336,300	\$9.92
Environmental & Allowances	\$216,302	\$6.38
Sales Tax	\$389,474	\$11.49
Contingency (Hard Costs)	42,629	\$1.85
Soft Costs		
Property Taxes	\$5,000	\$0.15
Legal & Administrative	\$15,000	\$0.44
Property Insurance	\$15,000	\$0.44
Environmental and Surveys	\$1,000	\$0.03
3rd Party Reports & Studies	\$27,500	\$0.81
Impact Fees	\$98,958	\$2.92
Permits	\$63,954	\$1.89
Utilities & Connections	\$158,589	\$4.68
Architecture & Engineering	\$245,566	\$7.24
FF&E	\$5,000	\$0.15
Marketing & Lease-Up	\$5,000	\$0.15
Leasing Commissions	\$29,500	\$0.87
DM/Developer Fee	\$177,000	\$5.22
Contingency (Soft Costs)	\$42,353	\$1.25
Financing Costs:		
Loan Origination (Conventional)	\$44,250	\$1.31
Loan Administration & Inspections	\$20,000	\$0.59
HUD Fees	\$3,000	\$0.09
Guarantee Fees	\$13,000	\$0.38
Interest Reserves	\$184,688	\$5.45
Equity Sales/Syndication	<u>\$0</u>	
Totals	\$6,266,677	\$184.86
NOI - Year 0 Stabilized	\$347,332	
Stabilized Return on Cost	5.54%	
Total Hard Costs Per Gross SF	<u>\$4,868,690</u>	<u>\$143.62</u>

9/20/2017

The Avalon
Development Cost Budget

Gross SF - All 33,900

Cost Code	Description	Variable(s)	Budget	Committed Equity	Unfunded Liability	Comments/Notes
20100 - LAND ACQUISITION						
20105	Land Acquisition	0%	195,000	0	195,000	City of Olympia purchase price
20110	Acquisition Fees		0	0	0	
20115	Holding Costs-Interest	0% IO	0	0	0	
20120	Holding Period-Taxes		0	0	0	
20125	Environmental & Soils		0	0	0	Robinson Noble has completed significant studies
20130	Financing Fees	0% of new loan	0	0	0	
20135	Legal		3,000	0	3,000	PSA through brokers
20140	Title & Escrow		3,000	0	3,000	
	TOTAL LAND COST:		201,000	0	201,000	
			3%			
20200 - HARD COSTS						
20205	Construction Costs		3,926,614	0	3,926,614	Carried on separate construction budget
20210	Civil/Offsite		0	0	0	Carried as environmental
20211	Environmental (Reimbursed from City)		120,302	0	120,302	Added to \$2,000 for archeological monitoring & vapor barrier mainter
20215	Commercial TIs	\$57 per SF @ 5,900 SF	336,300	0	336,300	Reduced fee to 10%, reference spreadsheet
20216	Allowances		96,000	0	96,000	Appliances, Specialties @ \$3,200 per unit
20220	Hard Cost Contingency	1.0% of hard costs	42,629	0	42,629	
20225	Sales Tax	8.8% of construction	389,474	0	389,474	
	TOTAL HARD COSTS:		4,911,319	0	4,911,319	\$144.88 per GSF
			78%			\$163,711 per Unit
20300 - SOFT COSTS						
20305	Real Estate Taxes-Construction		5,000	0	5,000	Guestimate during construction term
20310	Legal & Administrative					
20311	Administration		0	0	0	Monthly bookkeeping, management, etc
20312	Legal		15,000	0	15,000	LLC formation, Dev Agreement, Misc Negotiations, etc.
20315	Insurance		15,000	0	15,000	Property/Builders Risk/Rent Loss
20320	Environmental (Phase I, Remediation)					
20321	Phase I ESA		0	0	0	Robinson-Noble
20322	Survey		1,000	0	1,000	ALTA
20325	3rd Party Reports/Studies					
20326	Reports - Appraisal		7,500	1,750	5,750	SH&H
20327	Studies - Market Demand		0	0	0	Other
20328	Studies - Traffic Engineering		0	0	0	Other
20329	Studies - GeoTech		20,000	0	20,000	Landau
20330	Impact Fees					
20331	Transportation - Commercial		0	0	0	
20332	Transportation - Housing		31,320	0	31,320	Ref calculator
20333	Parks & Urban Forestry		67,638	0	67,638	Ref calculator, includes forestry
20334	School		0	0	0	
20340	Permits					
20341	Pre Submittal Applications		480	480	0	Ref calculator
20342	Demolition/Excavation/Grading		0	0	0	
20343	Design Review & Land Use		11,000	0	11,000	Ref calculator
20344	Building Permit		31,803	0	31,803	Ref calculator
20345	Plan Check		20,672	0	20,672	Ref calculator
20350	Utilities/Connections					
20351	Waste Water - General		31,143	0	31,143	Ref calculator
20352	Waste Water - Capacity		112,446	0	112,446	Ref calculator
20353	Meters, Backflow		15,000	0	15,000	Ref calculator
20354	Storm Water		0	0	0	
20360	A&E, Consultants	@ 5% of direct construction	245,566	0	245,566	
20370	FF&E		5,000	0	5,000	
20375	Marketing & Lease Up					
20376	Graphic Designer		2,500	0	2,500	
20377	Collateral, Mediums, Signage		2,500	0	2,500	Ironseele
20380	Leasing Commissions	5.0% \$20 / SF NNN	29,500	0	29,500	
20385	CM/Development Fee	3.0% of total	177,000	0	177,000	\$5,900,000 total est cost
20390	Soft Cost Contingency	5.0% of soft	42,353	0	42,353	
	TOTAL SOFT COSTS:		889,421	1,750	887,671	
			14%			
20400 - FINANCE COSTS						
20405	Loan Origination - Conventio	1.0%	44,250	0	44,250	\$4,425,000 estimated loan size
20410	Loan Administration		20,000	0	20,000	
20415	HUD Fees	0.6%	3,000	0	3,000	\$500,000 estimated loan size
20420	Guarantee Fee (HUD)	2.6%	13,000	0	13,000	"
20425	Interest Reserves	5.0% 9 months IO	184,688	0	184,688	100% applied draw
20430	Equity Sales/Syndication	0.0%	0	0	0	\$0 estimated capital requirement
	TOTAL FINANCE COSTS:		264,938	0	264,938	
			4%			
TOTAL PROJECTED COSTS			6,266,677	1,750	6,264,927	

\$185 per GSF
 \$208,889 per Unit

The Avalon
Rent Roll

Floor	Type	No.	Style	Unit SF	RENT						Notes
					Max HUD	\$/SF	Annualized	Market	\$/SF	Annualized	
2	A	4	Studio	478	\$ 1,017	\$ 2.13	\$ 48,816	\$ 1,017	\$ 2.13	\$ 48,816	
	B	3	Studio	467	\$ 1,017	\$ 2.18	\$ 36,612	\$ 1,017	\$ 2.18	\$ 36,612	
	C	1	1bed	652	\$ 1,153	\$ 1.77	\$ 13,836	\$ 1,153	\$ 1.77	\$ 13,836	NWC unit
	D	1	Studio	477	\$ 1,017	\$ 2.13	\$ 12,204	\$ 1,017	\$ 2.13	\$ 12,204	SWC unit
	E	1	Studio	609	\$ 1,017	\$ 1.67	\$ 12,204	\$ 1,017	\$ 1.67	\$ 12,204	SEC unit, Need 1 bdrm to max rent?
	Subtotal	10		5,050		\$ 2.04	\$ 123,672		\$ 2.04	\$ 123,672	
3	A	4	Studio	478	\$ 1,017	\$ 2.13	\$ 48,816	\$ 1,017	\$ 2.13	\$ 48,816	
	B	3	Studio	467	\$ 1,017	\$ 2.18	\$ 36,612	\$ 1,017	\$ 2.18	\$ 36,612	
	C	1	1bed	652	\$ 1,153	\$ 1.77	\$ 13,836	\$ 1,350	\$ 2.07	\$ 16,200	NWC unit
	D	1	Studio	477	\$ 1,017	\$ 2.13	\$ 12,204	\$ 1,075	\$ 2.25	\$ 12,900	SWC unit
	E	1	Studio	609	\$ 1,017	\$ 1.67	\$ 12,204	\$ 1,250	\$ 2.05	\$ 15,000	SEC unit, Need 1 bdrm to max rent?
	Subtotal	10		5,050		\$ 2.04	\$ 123,672		\$ 2.14	\$ 129,528	
4	A	4	Studio	478	\$ 1,017	\$ 2.13	\$ 48,816	\$ 1,050	\$ 2.20	\$ 50,400	
	B	3	Studio	467	\$ 1,017	\$ 2.18	\$ 36,612	\$ 1,050	\$ 2.25	\$ 37,800	
	C	1	1bed	652	\$ 1,153	\$ 1.77	\$ 13,836	\$ 1,400	\$ 2.15	\$ 16,800	NWC unit
	D	1	Studio	477	\$ 1,017	\$ 2.13	\$ 12,204	\$ 1,125	\$ 2.36	\$ 13,500	SWC unit
	E	1	Studio	609	\$ 1,017	\$ 1.67	\$ 12,204	\$ 1,300	\$ 2.13	\$ 15,600	SEC unit, Need 1 bdrm to max rent?
	Subtotal	10		5,050		\$ 2.04	\$ 123,672		\$ 2.21	\$ 134,100	
Totals	30		505	15,150		\$ 2.04	\$ 371,016		\$ 2.13	\$ 387,300	

**CITY OF OLYMPIA, WA
RESIDENTIAL AFFORDABILITY WORKSHEET**

UNIT TYPES

- 27 Efficiency / Studios
- 3 1-BR / 1 Bath Apartments
- 30 TOTAL

		EFFICIENCY - STUDIO 1-Person Household	1 BR - 1 BA UNIT 2-Person Household
Olympia - Thurston County Median Income - ¹	\$ 76,300	\$ 53,500	\$ 61,100
MFTE / CDBG REQUIREMENT		80%	80%
Household Income To Be Served			
Annual Income		\$ 42,800 ²	\$ 48,880 ²
Hourly Equivalent		\$ 20.58	\$ 23.50
Maximum Affordable Rent - Including Utilities (30% of Income)		\$ 1,070	\$ 1,222
Utility Allowance - ³		\$ 53	\$ 69
Maximum Affordable Rent Level		\$ 1,017	\$ 1,153

AVALON AFFORDABILITY OBJECTIVE - 51% OF UNITS AT 80% AMI			
Projected Monthly Rent		\$ 1,017	\$ 1,153
Utility Allowance - ³		\$ 53	\$ 69
Maximum Rent + Utilities		\$ 1,070	\$ 1,222
Income Affordability Achieved			
Annual Income		\$ 42,800	\$ 48,880
% Olympia - Thurston County Median Income		80%	80%
Hourly Equivalent		\$ 20.58	\$ 23.50
100% of units will affordable at 80% of Area Median Income.			

¹ - Source: HUDUser.gov/portal/datasets/il/il2017
² - Source: WSHFC.org/limits/detail.aspx?County=Thurston&Year=2017
³ - Source: WSFC - Utility Allowances:Thurston County- Apartments

Stabilized Operating Statement

30 units

33,900 GSF

Description	Variable	Stabilized	\$ / Unit	Notes
Annual Income				
Gross Potential Residential		\$371,016	\$12,367	
Less: Vacancy Loss	5.0%	(\$18,551)	(\$618)	
Less: Turnover Vacancy	0.0%	\$0	\$0	
Net Scheduled Residential		\$352,465	\$11,749	
Gross Potential Commercial		\$153,400	\$5,113	@ \$26 psf Gross Lease
Less: Vacancy Loss	5.0%	(\$7,670)	(\$256)	
Net Scheduled Commercial		\$145,730	\$4,858	
Other Income		\$24,000	\$1,200	\$50/unit - reimbursables/ \$200/unit other
Less: Vacancy Loss	5.0%	(\$1,200)	(\$40)	
Total Other Income		\$22,800	\$760	
Effective Gross Revenue (EGR)		\$520,995	\$17,367	
EGR Per GSF		\$15.37	\$1	
Annual Operating Expenses				
Marketing & Advertising		\$1,500	\$50	
Repairs & Maintenance		\$18,200	\$607	Only stabilized year
Administration				Assumed in Professional Management
Total Controllable Expenses		\$19,700	\$657	
Professional Management	5.0%	\$41,680	\$1,389	
Property Taxes		\$28,183	\$939	Based on Land Value and Commercial V
MFTE Discount on Residential Value				
Property Insurance		\$16,800	\$560	
Utilities		\$33,600	\$1,120	
Total Non-Controllable Expenses		\$120,263	\$4,009	
Commercial Expenses	\$5 per RSF	\$29,500	\$983	
Reserves & Capital Expenses		\$4,200	\$140	
Total Operating Expenses		\$173,663	\$5,789	33% of EGR
Excluding Retail & Cap Reserves		\$139,963	\$4,665	27% of EGR
Gross Expenses per GSF		\$5.12	\$0	
Net Operating Income		\$347,332	\$11,578	
		\$10.25	\$0	
Reversion Cap	5.50%		N/A	
Stabilized Valuation		\$6,315,136	\$210,505	

**The Avalon
Cash Flow**

Description	Year	Pre-Dev	Construction	Lease-Up	Stabilized	2021	2022	2023	2024
		2017	2018	2019	2020	3	4	5	6
Revenue	2.50% growth	\$ 520,995	\$ 534,020	\$ 547,371	\$ 561,055	\$ 575,081	\$ 589,458	\$ 604,195	\$ 619,300
Expenses	2.50% growth	\$ 173,663	\$ 178,004	\$ 182,454	\$ 187,016	\$ 191,691	\$ 196,483	\$ 201,396	\$ 206,430
NOI		\$ 347,332	\$ 356,016	\$ 364,916	\$ 374,039	\$ 383,390	\$ 392,975	\$ 402,799	\$ 412,869

Debt Service										
Debt Service (Senior)	69% LTC	\$ -	\$ 218,950	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860
DSCR		0.00		1.28	1.31	1.35	1.38	1.41	1.45	
Cash Flow after Senior D/S		\$ -	\$ -	\$ 80,056	\$ 89,179	\$ 98,530	\$ 108,115	\$ 117,939	\$ 128,009	
Debt Service (HUD)	7% LTC	\$ -	\$ 16,250	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684
DSCR		0.00		1.14	1.17	1.20	1.23	1.26	1.29	
Cash Flow after HUD D/S		\$ -	\$ -	\$ 44,372	\$ 53,495	\$ 62,846	\$ 72,431	\$ 82,255	\$ 92,325	
Debt Service (Combined)		\$ -	\$ -	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	
DSCR		0.00		1.14	1.17	1.20	1.23	1.26	1.29	

City of Olympia - HUD 108 Loan Underwriting Ratios										
	Loan Year	1	2	3	4	5	6	7		
Estimated Fair Market Value (FMV)		\$ 6,473,014	\$ 6,634,840	\$ 6,800,711	\$ 6,970,728	\$ 7,144,997	\$ 7,323,622	\$ 7,506,712		
HUD 108 Loan-to-Value (LTV)		75%	73%	69%	66%	65%	63%	62%		
HUD 108 Debt Service Cover (DCR)		0	1.14	1.17	1.20	1.23	1.26	1.29		
Developer Cash-On-Cash Return			3.50%	4.22%	4.96%	5.71%	6.49%	7.28%		
Developer Internal rate of Return (IRR)		5.98%								

	2025	2026	2027	2028	2028	2028	2028	2028	2028	2028	2028	2028	2028
	7	8	9	10	11	12	13	14	15	16	17	18	19
\$	634,782	\$ 650,652	\$ 666,918	\$ 683,591	\$ 700,681	\$ 718,198	\$ 736,153	\$ 754,556	\$ 773,420	\$ 792,756	\$ 812,575	\$ 832,889	\$ 853,711
\$	211,591	\$ 216,881	\$ 222,303	\$ 227,861	\$ 233,557	\$ 239,396	\$ 245,381	\$ 251,515	\$ 257,803	\$ 264,248	\$ 270,855	\$ 277,626	\$ 284,567
\$	423,191	\$ 433,771	\$ 444,615	\$ 455,730	\$ 467,124	\$ 478,802	\$ 490,772	\$ 503,041	\$ 515,617	\$ 528,507	\$ 541,720	\$ 555,263	\$ 569,145

\$	284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860	\$ 284,860
	1.49	1.52	1.56	1.60	1.64	1.68	1.72	1.77	1.81	1.86	1.90	1.95	2.00
\$	138,331	\$ 148,911	\$ 159,755	\$ 170,870	\$ 182,264	\$ 193,942	\$ 205,912	\$ 218,181	\$ 230,757	\$ 243,648	\$ 256,860	\$ 270,403	\$ 284,285
\$	35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684	\$ 35,684
	1.32	1.35	1.39	1.42	1.46	1.49	1.53	1.57	1.61	1.65	1.69	1.73	1.78
\$	102,647	\$ 113,227	\$ 124,071	\$ 135,186	\$ 146,580	\$ 158,258	\$ 170,228	\$ 182,497	\$ 195,073	\$ 207,964	\$ 221,176	\$ 234,719	\$ 248,601
\$	320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544	\$ 320,544
	1.32	1.35	1.39	1.42	1.46	1.49	1.53	1.57	1.61	1.65	1.69	1.73	1.78

	8	9	10	11	12	13	14	15	16	17	18	19	20
\$	7,694,380	\$ 7,886,739	\$ 8,083,908	\$ 8,286,006	\$ 8,493,156	\$ 8,705,485	\$ 8,923,122	\$ 9,146,200	\$ 9,374,855	\$ 9,609,226	\$ 9,849,457	\$ 10,095,693	\$ 10,348,086
	60%	59%	57%	56%	55%	53%	52%	51%	49%	48%	47%	46%	45%
	1.32	1.35	1.39	1.42	1.46	1.49	1.53	1.57	1.61	1.65	1.69	1.73	1.78
	8.10%	8.93%	9.79%	10.66%	11.56%	12.48%	13.43%	14.40%	15.39%	16.41%	17.45%	18.52%	19.61%