

## MEMORANDUM

**TO:** Board Members, Grand Rapids Economic Development Authority  
**FROM:** Rebecca Kurtz and Jessica Cook, Ehlers  
**DATE:** November 11, 2022  
**SUBJECT:** TIF for the Arbor Wood Company Project

---

The Voyageur Capital Group (the “Developer”) has applied to the Grand Rapids EDA to receive \$425,000 of tax increment financing assistance for the redevelopment of the 300,000 sq. foot industrial building located on County Road 63. The first major tenant in the redeveloped space will be Arbor Wood Company, a manufacturer of thermally modified wood products such as siding, decking, and architectural millwork.

The Developer has submitted a TIF Application, and LHB has determined the area meets the qualifications of a redevelopment TIF District. A redevelopment TIF district provides for up to 26 years of tax increment revenue.

As part of the redevelopment, the site requires approximately \$4,697,800 in utility improvements. The City has identified several partners to assist with the infrastructure expenses. The City’s portion of these expenses is \$869,380.

### Developer’s Request

Ehlers evaluated the need for tax increment financing assistance by analyzing the Developer’s sources and uses budget and financial projections, generally known as a pro forma. We reviewed the project based on industry standards for construction, land, and project costs; operating expenses; Developer fees; underwriting and financing criteria; and cash flow / return on investment.

Based on our review, we have affirmed the Developer’s request of \$425,000 is justified. The Developer has agreed to move forward with the project at this level of assistance.

The following table depicts the Developer’s proposed sources and uses for the project. The sources include the \$425,000 TIF Note that the Developer has requested. Significantly, the Developer is putting in over 30% equity into the project.

| <b>SOURCES</b>       |                  |                |
|----------------------|------------------|----------------|
|                      | <b>Amount</b>    | <b>Pct.</b>    |
| First Mortgage       | 2,500,000        | 51.81%         |
| TIF Note             | 425,000          | 8.81%          |
| Developer Equity     | 1,500,000        | 31.09%         |
| <b>Subtotal</b>      | <b>4,425,000</b> | <b>91.71%</b>  |
| Grants               | 400,000          | 8.29%          |
| <b>TOTAL SOURCES</b> | <b>4,825,000</b> | <b>100.00%</b> |

| <b>USES</b>           |                  |                  |
|-----------------------|------------------|------------------|
|                       | <b>Amount</b>    | <b>Per Sq/Ft</b> |
| Acquisition Costs     | 982,652          | 20.07            |
| Construction Costs    | 3,189,383        | 65.14            |
| Professional Services | 314,557          | 6.42             |
| Insurance, Utilities  | 50,000           | 1.02             |
| Real Estate Taxes     | 113,408          | 2.32             |
| Project Management    | 175,000          | 3.57             |
| <b>TOTAL USES</b>     | <b>4,825,000</b> | <b>98.55</b>     |

## Project Analysis and Return on Investment

Based on our review, the project’s key metrics all fall within or below industry standard ranges.

1. Total Development Cost (the “TDC”) – The estimated TDC is \$4,825,000 or \$98.55 per square foot is within the market range for TDC.
2. Developer Fee – The Developer has proposed a developer fee of 3.57%, which is within the market rate. Typically, the Developer fee may be 5% of TDC.
3. Rents – The proposed rents are \$6.50 per square foot.
4. First Mortgage – The analysis confirms that the Developer has maximized the potential first mortgage based on the lender’s underwriting criteria.
5. TIF Note – The recommended \$425,000 of TIF assistance represents approximately 9% of the total project cost. Depending on the project type, TIF assistance for commercial projects is commonly in the range of 10% of the total project cost.
6. Return on Investment – The most common measure we use to determine the Developer’s profit from the project is the cash-on-cash (COC) rate of return. This measure is simply the projected annual cash flow divided by the Developer’s equity in the project. At project stabilization, the Developer’s cash return is expected to be 5.4% with the requested TIF assistance. The returns are expected to increase to 6.3% by the end of the projection period. This is below both the industry standard as well as the Developer’s stated threshold. However, the Developer expects to earn a greater return on future development and is therefore willing to proceed with Arbor Wood at the lower rates of return. The Developer is

taking the risk that additional development will happen and concluded that this was a workable solution. With TIF assistance of \$425,000, the Developer achieves a COC that allows the project to move forward.

We conclude that TIF assistance in the amount of \$425,000 can be justified for this project. The Developer has maximized the potential private mortgage and minimized development costs. However, a demonstrated financial gap remains. The proposed development will not reasonably be expected to occur solely through private investment within the reasonably near future. Due to the costs associated with redeveloping a blighted site, this project is feasible only through the requested public assistance.

### **Funding of City Portion of Infrastructure**

Based on the Assessor's estimates of the increase in value -- not only from the proposed redevelopment but also from the benefit of the infrastructure improvements -- it is estimated the tax increment revenue will be sufficient to support the Developer's request of \$425,000 and the City's cost of \$869,380 over the 26-year term of the TIF district. Additional development on the site or increases in market value may allow the term to be shortened.

The structure of the assistance, including the term for the Developer's \$425,000 PAYGO Note are being negotiated and will be brought to the EDA for review at a future date.

Should you have any questions, please do not hesitate to contact Rebecca Kurtz at 651-697-8516 or Jessica Cook at 651-697-8546.