

MEMORANDUM

TO: Rob Mattei, EDA Executive Director

FROM: Rebecca Kurtz and Jessica Cook

DATE: April 4, 2024

SUBJECT: Oppidan Development Request for Financial Assistance

The Grand Rapids EDA (the “GREDA”) received a request for assistance from Oppidan Investment Company (the “Developer”) to construct a 132-unit rental housing community located at 2199 SW 8th Street on land current owned by GREDA. Citing a financial gap in the project related to construction costs, interest rates, and modest market rents, the Developer is requesting TIF and tax abatement as well as a land write-down to make the project financially feasible. In addition, the Developer is requesting that the EDA apply on its behalf to the Minnesota Housing’s Workforce Housing Development Program to obtain a forgivable loan for the project. The Workforce Housing Development Program is a competitive program with funding demand across the state far outstripping funding availability. The program requires a commitment of minimum matching local funds of one dollar for every two dollars of requested program funds.

This memo reviews the need for the local match based on our analysis of the developer’s project budget and projections, generally known as a pro forma. We used Minnesota Housing’s underwriting standards as the basis for our analysis. The table below depicts the Developer’s proposed sources and uses for the project.

SOURCES	Total	Percent	Per Unit
First Mortgage	\$ 13,762,000	41%	\$ 104,258
Workforce Housing Program	\$ 7,946,500	24%	\$ 60,201
TIF and Tax Abatement	\$ 2,084,000	6%	\$ 15,788
Developer Equity	\$ 8,011,653	24%	\$ 60,694
IRRB Grant	\$ 800,000	2%	\$ 6,061
Land Writedown	\$ 585,000	2%	\$ 4,432
TOTAL SOURCES	\$ 33,189,153	100%	\$ 251,433

USES	Total	Percent	Per Unit
Construction Costs	\$ 28,624,401	86%	\$ 216,852
Land	\$ 585,000	0%	\$ 4,432
Site Improvements/Infrastructure	\$ 412,000	1%	\$ 3,121
Soft Costs/Professional Fees	\$ 1,286,288	4%	\$ 9,745
Financing Costs	\$ 1,281,464	4%	\$ 9,708
Developer Fee	\$ 1,000,000	3%	\$ 7,576
TOTAL USES	\$ 33,189,153	100%	\$ 251,433

TIF and Tax Abatement

The Developer initially requested 26 years of tax increment assistance. However, since the project is designed for workforce housing – not affordable housing – it is not eligible for a 26-year housing TIF district. As an alternative, Ehlers has proposed that GREDA could create a 9-year Economic Development TIF District followed by 20 years of City-only tax abatement. The total value of the TIF and abatement in today's dollars (using a 6% discount rate) is estimated to be \$2,084,000.

As part of the Workforce Housing Program application, Minnesota Housing is looking for resolutions from the City of Grand Rapids that they will provide matching funds through the creation of a TIF District and adoption of a tax abatement program if the project receives Minnesota Housing funding.

Land Write-Down

The Developer is also requesting a land write-down to \$0. The Developer will still repay the City for the costs of bringing utilities and infrastructure to the site in the amount of \$412,000. The Developer has obtained an independent valuation of the land that estimates its value at \$585,000 or \$4,431 per unit. We would expect the cost of land to be between \$4,000 and 7,500 per unit, so the amount of the land write-down request is acceptable for the project and justified by the pro forma analysis. The land write-down counts as matching funds for the Minnesota Housing

Pro Forma Analysis

- **Project Financing:** The Developer proposes to finance the project with a mortgage in the amount of \$13.76 million, which is 42% of the total development costs. The amount of the first mortgage is constrained by the rental revenue available from the project. Based on current underwriting conditions, the Developer is maximizing its amount of first mortgage debt. The Developer is proposing to bring \$8 million in equity, which is 25% of total project costs. The proposed financing terms meet expectations for a project of this nature.
- **Total Development Costs:** The Total Development Cost of the project is \$33.2 million or \$251,433 per unit. Projects like this one are generally ranging between \$240,000 and \$300,000 per unit. The project does not include underground parking which helps reduce construction costs.
- **Rents:** Proposed rents range between \$1,143 per month for a studio unit, to \$1,830 per month for a 3-bedroom unit. On a per square foot basis, rents range between \$1.46 to \$1.80. The rents are based on a market study by Maxwell Research and are designed to be affordable to a person earning \$22 per hour or more, which represents about 224 of the anticipated jobs being added to the community.
- **Operating Expenses:** The operating expenses of approximately \$3,196 per unit per year are within than the typical range of \$3,000 to \$4,500 per unit per year (before management fees, property taxes, and replacement reserves).
- **Management Fee:** The management fee is projected at 5% of effective gross income (EGI). Management fees typically range between 3% to 5% of EGI. The proposed fee is within the acceptable range.
- **Developer Fee:** The developer fee of \$1,000,000 is 3% of total development costs. This is within the typical industry range of 3-5% for rental projects.

- Return on Investment – The project’s yield on cost return on investment (net operating income / total development costs) including the City’s assistance is 5.2% at stabilization. Yield on cost is a return on investment metric commonly used by multi-family housing developers. Developers typically need a yield on cost approaching 6.5% for feasibility. Based on this, we can conclude that providing City assistance is warranted for the project.

Recommendation:

Based on our review of the Developer’s pro forma, the project is being represented appropriately for the market. Since the projected return on investment is below market expectations, assistance from the City is justified to make the project financially feasible. The proposed assistance represents approximately 8% of the Total Development Cost and is summarized in the chart below.

PROPOSED ASSISTANCE	Total	Per Unit
TIF and Tax Abatement	\$ 2,084,000	\$ 15,788
Land	\$ 585,000	\$ 4,432
TOTAL ASSISTANCE	\$ 2,669,000	\$ 20,220

Please contact Rebecca at 651-697-8516 or Jessica at 651-697-8546 if you have any questions or comments.