

Creative Financing for Projects that Don't Pencil Out

white + burke

VERMONT
DEVELOPMENT
CONFERENCE

Creative Financing

- Market Drivers and Project Financing
- Tax Efficient Financing
- Community Enabled Development
- Subscription Based Housing

Market Drivers

Walkable Urban Places vs Drivable Suburban Places

- New Growth and foundation for US Economy
- Higher per Capita GDP
- Higher per Capita Education
- Employment Attraction
- Boomer residential demand
- Millennial residential demand

<http://www.smartgrowthamerica.org/documents/foot-traffic-ahead.pdf>

Typical Annual Operating Budget

Revenue		\$/SF	50,000 SF
Housing	30%	18.00	\$ 270,000
Office	30%	14.00	\$ 210,000
Retail	30%	16.00	\$ 240,000
Common	10%	0.00	\$ 0
Total Revenue		14.40	\$ 720,000
Expenses			
Maintenance		1.62	\$ 81,000
Electric		0.84	\$ 42,000
Water		0.14	\$ 7,000
Heating Fuel		0.29	\$ 14,500
Office Expense		0.23	\$ 11,500
Manager		0.60	\$ 30,000
Insurance		0.38	\$ 19,000
Taxes		1.50	\$ 75,000
Total Expenses		5.60	\$ 280,000
EBITDA			440,000
Debt Service			\$ 342,889
Debt Coverage Ratio			1.28

Typical Project Funding Gap

12\$/sf with NMTC plus reserves

Project Cost	\$/SF	50,000 SF
Acquisition	50	\$ 2,500,000
Design	12	\$ 600,000
Other soft	7.5	\$ 375,000
Cost to Construct	190	\$ 9,500,000
Total Project Cost	260	\$12,975,000
Building Value		
EBITDA @ 8.5% cap rate		\$ 5,176,471
Max Debt @ 80% value		\$ 4,141,176
Max Debt @ DCR		\$ 5,000,000
Gap: Debt vs. Cost		\$ 8,833,824
Sources of Funding Gap		
Equity		\$ 500,000
Mezzanine debt to 90%		\$ 517,647
State Downtown Credits		\$ 500,000
Federal Historic Credits		\$ 1,900,000
New Markets Tax Credits		\$ 2,595,000
Total Sources of GAP		\$ 6,012,647
Remaining GAP		\$ 2,821,176

*4.7%, 25 years
68% of project cost*

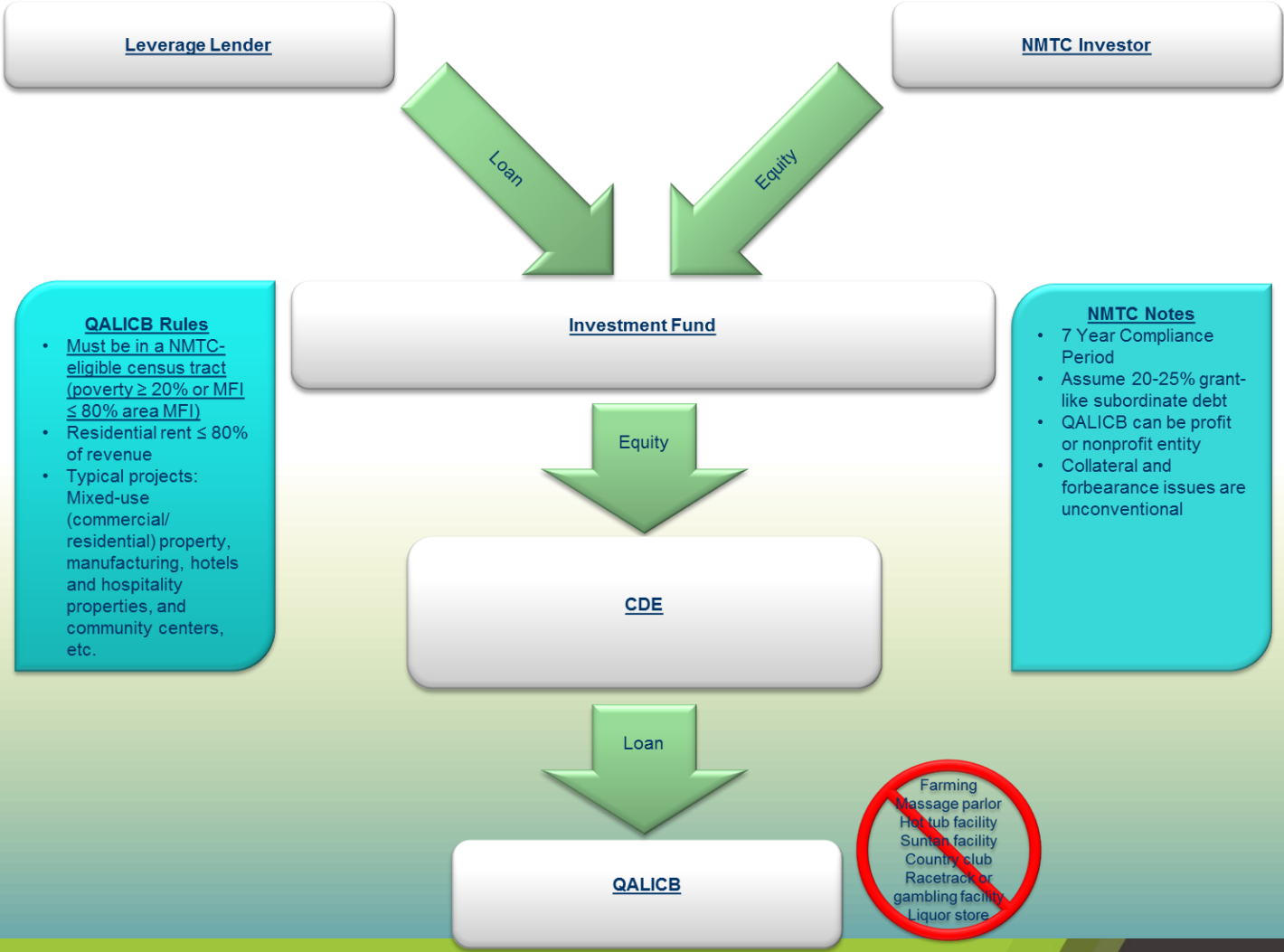
Is there an ROI?

22% of project cost

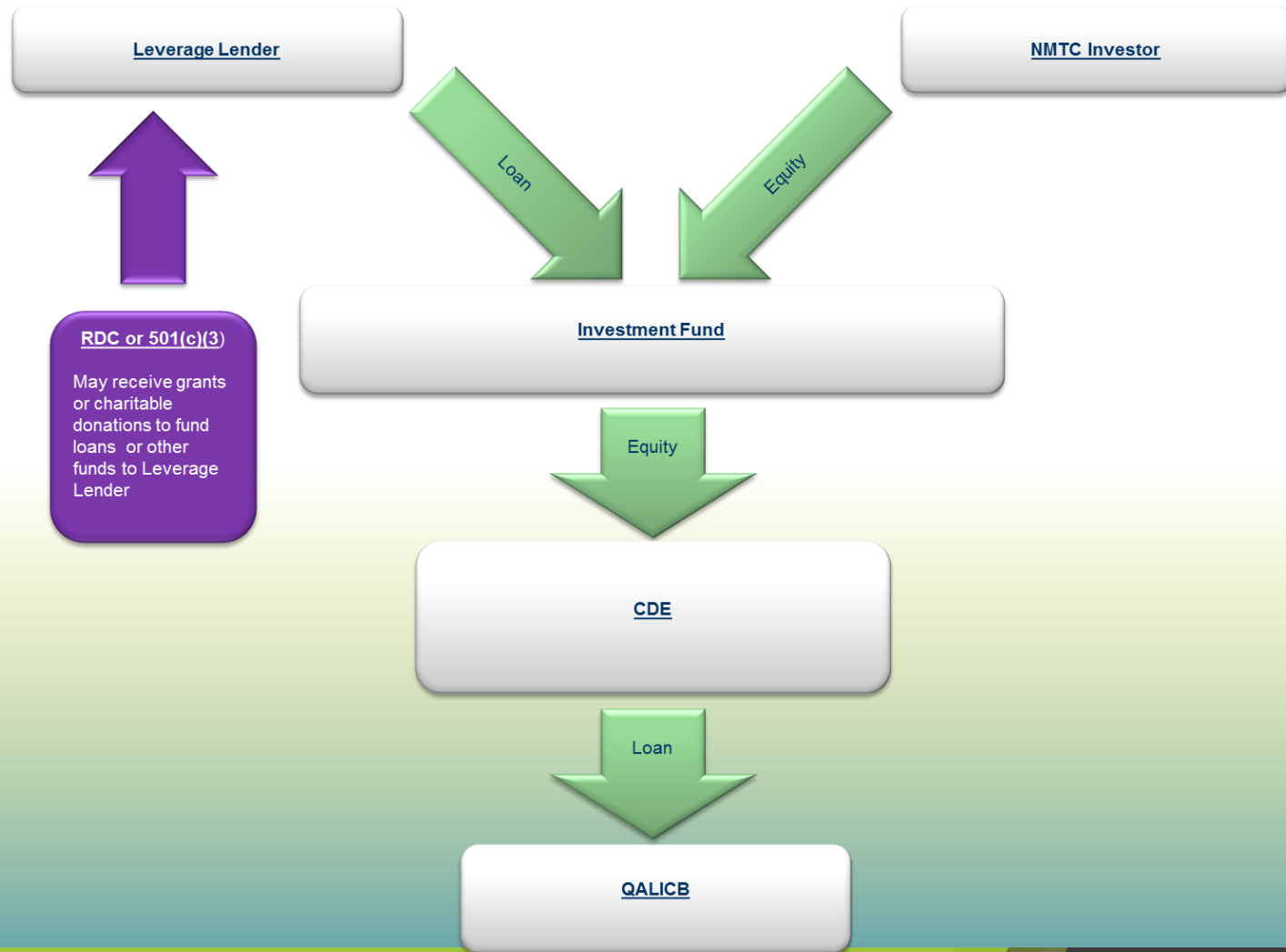
Key Elements to Success

- Loan to Value will not fund the project
- Patient or Free Capital
- Anchor Bankable Tenant for commercial
- High Complexity - low return

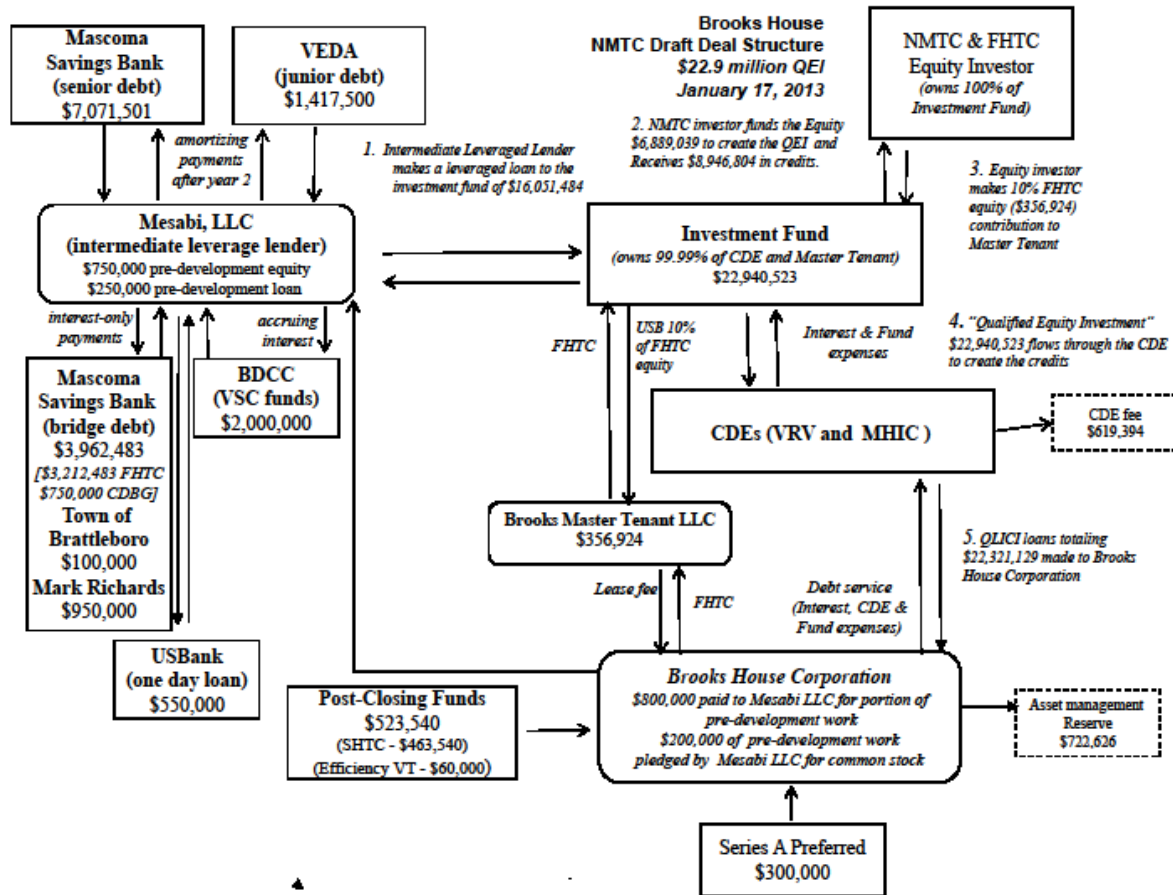
NMTC Structure



Tax Efficient Grants or Charitable Donations



Sample New Market Flow Diagram










Community Enabled Development

- Not economically viable
- Local rents will not support a “typical” return on equity for these risks
- Civic-minded investment for the community’s benefit



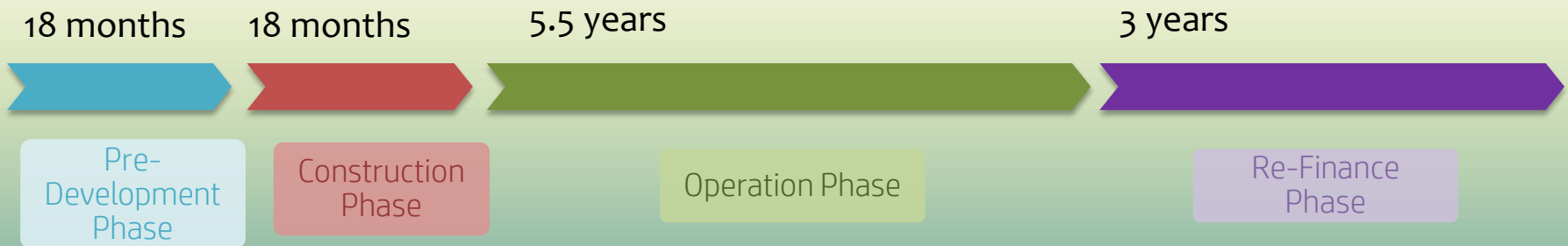
Community Enabled Development

 Tax Credits	\$ 8,818,093
 Senior Debt	\$ 4,800,000
 Junior Debt	\$ 975,000
 Grants	\$ 1,617,000
 Other Sources	\$ 200,000
 Preferred Equity	\$ 750,000
 Leadership Equity	\$ 900,000

Redevelopment — Schedule

The Phases:

- Pre-development Phase — 18 months
- Construction Phase — 18 months
- Operation Phase — 5.5 years
- Re-finance Phase — 3 years



Case Study



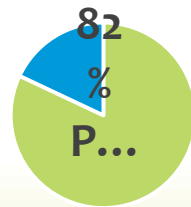
Case Study



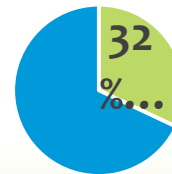
Community Enabled Development

- Transformative Project
- Bankable Anchor Tenants

Commercial



Residential



- Community Philanthropic Equity
- Community Network & Support

Tenant Financed Housing

Authentic Place

- Not Age-restricted
- Diversity
- Vibrant Walkable Urban Place

Community & Activities

- Community Room
- Outdoor Decks
- Programmed Events
- Vibrant Walkable Urban Place

Tenant Financed Housing

Wellness

- On-site fitness tenant
- Vibrant Walkable Urban Place

Support for Aging in place

- On-site Concierge
 - Cleaning, home health, tech support, tenant fit-up
- Valet Parking
- Restaurant Meal Plan
- Vibrant Walkable Urban Place

Tenant Financed Housing

Initial Costs	Walkable Urban Apartment 1,117 sf 2-bed	Drivable Suburban Apartment 1,500 sf 2-bed	Drivable Condo: Ownership 1,464 sf 2-bed	Drivable, Rural Senior Housing 1,250 sf 2-bed
Community "Entrance" Fees	\$125,000 <i>Fully Refundable</i>	\$4,500 <i>Security Deposit</i>	\$54,000 <i>20% down + closing</i>	\$533,000 <i>50% Refundable</i>
Purchase Price			\$ 200,000	
Closing Costs (7%)			\$ 14,000	
Appreciation: 1%/yr, 10 yrs			\$ 20,000	
Resale Transactional Costs (10%)			\$ 22,000	
Mortgage payoff			\$123,328	
10 Year Return at Exit	\$125,000	\$4,500	\$74,672	\$266,500
10 Year Profit/Loss	\$0	\$0	\$20,672	-\$266,500
Monthly Costs				
Monthly rent/mortgage	\$1,800	\$2,250	\$ 707	\$7,156
Electricity/gas	\$ 100	\$ 150	\$ 300	~
Inter/cable/phone	\$ 100	\$ 100	\$ 100	~
Renter/Homeowner Insurance	\$ 20	\$ 20	\$ 58	~
Water/Sewer/Trash	~	~	\$ 33	~
Property Taxes (2.8376%)	~	~	\$ 473	~
Landscaping/Lawn Care/Snow Removal	~	~	~	~
Repairs/Maintenance	~	~	\$ 150	~
Association Fee	~	~	\$ 185	~
TOTAL	\$2,020	\$2,520	\$2,006	\$7,156



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