Jackson/Pettigrew Street Development

City Council Work Session
December 21, 2017

Department of Community Development (DCD)
Office of Economic and Workforce Development (OEWD)
DHIC, Inc.
Self-Help Ventures Fund (SHVF)
Jackson/Pettigrew Street Development
Topics for Discussion

- Development update
- Financial analysis
- Council action requested to meet January 2018 Low-Income Housing Tax Credits (LIHTCs) deadline:
  - Adopt a Resolution in Support of the Jackson/Pettigrew Street Development and to Exercise Power Granted to Municipal Housing Authorities
  - Authorize City Manager to execute Option Contract with Self-Help Ventures Fund (SHVF) and DHIC, Inc.
  - Authorize City Manager to issue letter of support to Self-Help and DHIC for subordinate financing to fill a project financial gap
Jackson/Pettigrew Street Development

- In January 2017, the Development Team (SHVF and DHIC) was selected to work on the project following the October 2016 RFQ.

- In May 2017, the Development Team prepared an update on the project and site challenges:
  - Estimated subsidy request: $4-6 million ($40,000 to $60,000 per unit for 80 units).

- In October 2017, City Council approved City staff and the Development Team to move forward with exploring a mixed-use concept with 100% affordable housing to households at <=60% AMI, commercial office space, retail, and structured parking:
  - Budget included an estimated subsidy request based on preliminary drawings/cost estimates: $2.8 million ($35,000 per unit for 80 units).
Jackson/Pettigrew Development
Original Concept Approved by City Council

As a reminder, this is what City Council approved in October 2017:

~80 units, all LIHTC
~62,000 SF office
~260 parking spaces
~12,000 SF commercial
Jackson/Pettigrew Street Development
Refined Schematic Design

- Additional work has focused on residential building details ahead of the January 2018 LIHTC application date, including:
  - Refined parking count
  - Unit count and designs
  - Exterior finishes
  - Plaza details

- Development Team has also conducted a second pricing exercise on the refined schematic designs for more accurate pricing estimates
Jackson/Pettigrew Development
Refined Schematic Design

- Refined design for valid LIHTC application submission and UDO compliance

- 82 total units, all affordable
  - 39 1 BR/1 Bath
  - 20 2 BR/1 Bath
  - 23 2 BR/2 Bath

- 61,500 SF commercial

- 11,930 SF (gross) retail

- 278 parking spaces in structured podium parking
Jackson/Pettigrew Street Development
Refined Schematic Design

2 BR/1 Bath Unit Sample

1 BR/1 Bath Unit Sample
Jackson/Pettigrew Street Development
Refined Schematic Design

- Elevated plaza, located between the residential and commercial buildings
- Includes required playground, picnic shelter and seating areas (private to residential building)
Jackson/Pettigrew Street Development
Willard Street Elevation

Key features include:

- Balconies and first-floor private terrace entrances for some units
- First-floor retail on corner of Willard and Jackson
- Gated entrance to private residential/commercial parking podium
Jackson/Pettigrew Street Development
View From Durham Station

Key features include:

- 2-story parking podium; will include screening to meet UDO requirements
- Plaza, which will include private playground and landscaping buffer
Financial Analysis
Jackson/Pettigrew Street Development

- Given the urban location, tight site boundaries, and UDO requirements, there are several design elements that add cost, including:
  - Forecourts on Willard Street
  - Flat roof (vs. shingled roof)
  - HVAC located on roof
  - Upgraded siding
  - Storefront windows
  - Elevators
  - Elevated plaza space
  - Increased staging costs during construction

- Estimated “premium” for urban project = ~$1.2 million (*not including podium parking and related costs)
Jackson Pettigrew Sources & Uses Summary - Residential Program

<table>
<thead>
<tr>
<th>Development Sources &amp; Uses - Residential Units</th>
<th>Year 1 Operations</th>
<th>Total</th>
<th>Per Unit</th>
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<tbody>
<tr>
<td><strong>Total Monthly Rent:</strong></td>
<td>$52,047</td>
<td>$635</td>
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<tr>
<td><strong>Total Annual Rent:</strong></td>
<td>$624,564</td>
<td>$7,617</td>
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<tr>
<td><strong>Total Annual Other Income:</strong></td>
<td>$8,200</td>
<td>$100</td>
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<td><strong>Total Annual Vacancy Loss:</strong></td>
<td>-$44,293</td>
<td>-$540</td>
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<tr>
<td><strong>Annual Operating Expenses:</strong></td>
<td>-$389,998</td>
<td>-$4,756</td>
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<tr>
<td><strong>Net Operating Income:</strong></td>
<td>$198,472</td>
<td>$2,420</td>
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<td><strong>First Mortgage</strong></td>
<td>$2,215,685</td>
<td>$27,021</td>
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<td><strong>First Mortgage Debt Service</strong></td>
<td>$151,603</td>
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<td><strong>Minimum Debt Coverage Ratio</strong></td>
<td>1.20</td>
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<td><strong>Available for Subordinate Debt</strong></td>
<td>$13,790</td>
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<td><strong>Tax Credit Equity - $0.91</strong></td>
<td>$8,393,911</td>
<td>$102,365</td>
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<td><strong>TOTAL SOURCES</strong></td>
<td>$10,609,596</td>
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<td><strong>Site Improvements</strong></td>
<td>$1,037,726</td>
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<td><strong>Soils/Rock Allowance</strong></td>
<td>$187,500</td>
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<td><strong>Construction - Res. Only</strong></td>
<td>$7,196,178</td>
<td>$87,758</td>
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<td><strong>Parking (84 spaces) + Transfer Slab</strong></td>
<td>$2,313,123</td>
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<td><strong>GR, Overhead, &amp; Profit</strong></td>
<td>$1,527,210</td>
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<td><strong>Contingency</strong></td>
<td>$603,712</td>
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<td><strong>Arch. &amp; Engineering</strong></td>
<td>$480,338</td>
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<td><strong>Financing Cost</strong></td>
<td>$580,809</td>
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<td><strong>Impact &amp; Permit Fees</strong></td>
<td>$322,550</td>
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<td><strong>Other Soft Costs</strong></td>
<td>$546,638</td>
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<td><strong>Reserves</strong></td>
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<td><strong>Developer Fee</strong></td>
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<td><strong>Construction Cost Escalator</strong></td>
<td>$927,578</td>
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<td><strong>TOTAL DEVELOPMENT COST</strong></td>
<td>$17,088,862</td>
<td>$208,401</td>
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<td><strong>RESIDENTIAL ONLY GAP</strong></td>
<td>$6,479,266</td>
<td>$79,015</td>
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<td><strong>- Mortgage Increase from 21 DHA Vouchers</strong></td>
<td>-$1,400,000</td>
<td>-$17,073</td>
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<td><strong>- Add'l Subsidy Reduction from Tax Exemption</strong></td>
<td>-$646,000</td>
<td>-$7,878</td>
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<td><strong>- Office/Retail Contribution</strong></td>
<td>-$917,155</td>
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<td><strong>TOTAL PROJECT GAP</strong></td>
<td>$3,516,111</td>
<td>$42,879</td>
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Financial Analysis
Jackson/Pettigrew Street Development

- Subsidy estimate is currently $3.6 million ($42,879 per unit for 82 units) following refined architectural drawings and construction pricing estimates.

- Factors resulting in the increase in subsidy request include:
  - Inclusion of a realistic cost escalator for 2019 construction
  - Better understanding of expenses associated with meeting UDO requirements (i.e. siding, storefront windows)
  - Additional podium parking under property’s northern portion

- Factors mitigating a further increase in subsidy request include:
  - Greater estimated subsidy contribution by the office building
  - Assuming $0 in annual real estate taxes; reduced operating expenses allows for property to carry higher debt
  - Less conservative financing assumptions
  - Increased equity pricing from $0.89 to $0.91 per credit
Jackson/Pettigrew Street Development

Next Steps

- January 2\textsuperscript{nd} Council Meeting: Approval of (1) Option Contract, (2) Resolution and (3) Letter of Support
- Mid-January 2018: Development Team to submit preliminary LIHTC application to NCHFA
- January – April 2018: Continue to refine concept, design and construction costs
- April 2018: City Council Approval of Development Agreement and Financing Commitment
- May 2018: Full application due to NCHFA
- August 2018: Anticipated credit awards announcement
- Q1 2019: If awarded credits, construction begins
- By December 31, 2020: Required completion (“placed-in-service”) date for residential building