

DATE: March 8, 2011

ITEM: 7.A.

RE: CONSIDERATION AND APPROVAL OF A PROPOSAL BY THE COMMUNITY DEVELOPMENT CORPORATION OF UTAH FOR THE DEVELOPMENT OF AGENCY OWNED PROPERTY LOCATED AT 153 WEST 900 SOUTH.

PROJECT AREA: West Temple Gateway

PREPARED BY: Matt Dahl

EXECUTIVE SUMMARY: On August 11, 2008, the RDA Board adopted Resolution No. 647.01, approving terms for a Purchase and Sale Agreement with the Community Development Corporation of Utah (CDCU) for the sale of Agency-owned property located at 153 West 900 South (the "Property"). In August 2010, the RDA Board approved the second extension of the exclusive negotiation period as a means of providing CDCU time to work on a plan that would allow them to develop the property despite current market conditions. Since the extension was granted, CDCU has pursued several options for moving forward with the development of the property, which resulted in a new proposal to include a new project partner and developing the property in two phases. CDCU is seeking preliminary approval of their plan.

REDEVELOPMENT ADVISORY COMMITTEE RECOMMENDATION: The Redevelopment Advisory Committee recommended that the RDA Board give preliminary approval to CDCU's plan. RAC members indicated that they felt the proposed changes would not fundamentally change the project from what was originally approved, though they were concerned that further changes may warrant a discussion on whether the project still meets the goals and objectives that led to CDCU's original selection.

ALTERNATIVES:

- 1) Pass a motion providing preliminary approval of CDCU's plan.
- 2) Pass a motion providing preliminary approval of CDCU's plan with caveats.
- 3) Do not pass a motion providing preliminary approval of CDCU's plan.

ANALYSIS AND ISSUES: In August 2008, the RDA Board approved the terms of a Purchase and Sale Agreement with the CDCU for the development of Agency-owned property located at 153 West 900 South (the "Property"). At the time of the Board's approval of the terms, CDCU had completed its Design Development Drawings (60% of Construction Drawings), which were a continuation of the basic design concept that was approved by the Board in May 2008. The project, entitled Ninth Street Place, is currently designed as a two-building transit-oriented development. The larger five-story building, located on the east side of the assemblage, would contain 44 market-rate for-sale condominium units that include a mix of one-bedroom, two-

bedroom, and two-bedroom plus flex-space units. The flex-space units will have two levels, with the ground floor having the potential to be either commercial or residential space. The smaller building would be comprised of three live-work units. The unit sizes would range from approximately 700 to 2,000 square feet. The development has been designed to achieve Silver LEED certification.

The Purchase and Sale Agreement term sheet that was approved in August 2010 indicated that the RDA would provide CDC with construction financing for the lesser of \$2.5 million or 25% of the development's construction costs. Given the project's original cost estimate of \$10 million, CDC needed to secure additional financing for the project. Despite significant interest by financial institutions when the project was initially selected, the upheaval in the banking sector and the related decline in the housing market have resulted in significantly stricter lending standards and fewer organizations that are willing to finance condominium projects.

In August 2009 and August 2010, the Board approved extensions of the project's outside closing date, citing adverse market conditions. In the year following the 2009 extension, CDC completed its Final Construction Drawings, which they have neither submitted to the City for permits, nor to the RDA Board for approval.

Since the approval of the last extension in August 2010, CDCU has been working on a plan that would allow them to proceed with the development of the Property. Their efforts have included the in depth analysis of the local condominium market, exploration of new and creative financial tools and partnerships, and the modification of the project to make it more economically feasible. Given that several of the proposed changes included in their plan would modify the terms approved by the RDA Board in August 2010, CDCU is seeking preliminary approval of their new plan for the development of the property, which includes the following:

- 1) Partnership with Ivory Homes: CDCU has indicated that Ivory Homes (Ivory) will be joining the Ninth Street Place development team. Ivory and its subsidiaries will take on the project's construction, marketing, sales, and mortgage financing. Ivory will not be an equity partner in the project, though their services, particularly mortgage financing, should increase the likelihood of the project's success.
- 2) Unit Count and Mix: Ivory has been reviewing the project's design for cost engineering and marketing purposes. As a result of their ongoing review, Ivory has indicated that the unit mix and count will need to be adjusted to make the development more appealing for today's market. The only significant change proposed so far is the combining of three one-bedroom units on each floor into two two-bedroom units. Ivory continues to look at the design and may recommend further changes. All changes will be subject to design review by the RDA Board.
- 3) Project Phasing: CDCU thinks that it would make the project more feasible if they could build it in two phases. They propose to build the 900 South facing part of the property in

the first phase, which would include the elevator core, commercial space, rooftop plaza, and most of the landscaping. It would also include the development of all necessary infrastructure to support the entire project, including the parking area behind the building.

The currently approved project was not intended to be phased. If the Board provides preliminary approval of this proposal, CDCU and staff would work on the terms of the phasing, including

- A) The trigger for starting construction of the second phase.
 - B) A mechanism for canceling the second phase if the second phase does not begin in a timely manner.
 - C) Guidelines for how the site of the second phase will be landscaped and maintained prior to construction.
- 4) Removal of Western Parcel: CDCU is proposing that the small western parcel be removed from the development. The western parcel is currently planned to be the site of three live-work units. In addition to reducing the development's unit count, this change would also impact the sales price for the project, which would need to be negotiated for future approval.
- 5) RDA Financial Contribution: The RDA has previously committed to provide a low interest rate loan for \$2.5 million or 25% of the project's construction costs. CDCU has expressed interest in revisiting the RDA's financial commitment to the project based on any gaps in the project's financing that may occur as they work out the details of their current proposal. Any proposed changes to the RDA's financial commitment would require Board approval.

The Board's approval of CDCU's proposal is being sought as a means of determining whether the Board views any of the proposed changes as non-starters or issues of concern. If the Board supports the plan, staff will work with CDCU to define the specific terms for the modified project for RDA Board consideration in April. In addition to working out the new terms, CDCU will finalize the project proforma and identify sources for project construction and mortgage financing.

If the Board does not support the proposal, or any component thereof, CDCU can continue to pursue the development under the terms currently approved by the Board, or they can seek future approval of the proposal after it has been modified to address the Board's concerns.

BACKGROUND:

- The Board approved acquisition of the Sure Appliance Assemblage through the adoption of Resolution 619.03 on September 14, 2006.
- The Sure Appliance Assemblage was acquired by the Agency in November 2006.
- The Board approved the terms and guidelines for a request for proposals for the development of the Sure Appliance Assemblage through the adoption of Resolution 624.06 on February 15, 2007.
- The Agency issued the RFP for the development of the Sure Appliance Assemblage in May 2007.
- The Board authorized the Agency to enter into exclusive negotiations with CDC for the development of the Property on September 18, 2007 through the adoption of Resolution No. 634.02.
- In December 2007, the Board approved Resolution No. 637.03, granting an extension on CDC's reporting requirements through the end of exclusive negotiations.
- In March 2008, the Board approved Resolution No. 640.01, granting a six-month extension of the exclusive negotiation period. CDC requested the extension because of unforeseen site and budget conditions that required significant modification to the proposed developments plans.
- In May 2008, the Board passed a motion approving a new basic design concept.
- In August 2008, the Board passed Resolution No. 647.01, approving the terms for the Purchase and Sale Agreement, Development Agreement, Development Agreement Guaranty, Loan Agreement, and CC&Rs.
- In August 2009, the Board passed Resolution No. 663.01, approving an amendment to the terms for the Purchase and Sale Agreement, Development Agreement, Development Agreement Guaranty, Loan Agreement, and CC&Rs.
- In August 2010, the Board passed Resolution No. 663.01, approving an amendment to the terms for the Purchase and Sale Agreement, Development Agreement, Development Agreement Guaranty, Loan Agreement and CC&Rs extending the exclusive negotiation period to May 31, 2011.

ATTACHMENT: CDCU Project Status Report



Ninth Street Place
Project Status Report
to the Redevelopment Agency of
Salt Lake City
22 February 2011

In September 2007, **Community Development Corporation of Utah** (CDCU) was selected by the Redevelopment Agency of Salt Lake City (RDA) through an open and competitive process to enter into exclusive negotiations for the development of the property at 153 West 900 South. CDCU understood their proposal was successful because it:

- Promotes homeownership. The neighborhoods surrounding the project site have expressed a preference for homeownership over rental due to a perceived imbalance that favors apartments.
- Mixes uses. The development design includes a mix of residential, flexible residential, and commercial spaces.
- Maximizes and promotes public transit opportunities. With the 900 South TRAX station just steps away, the mixed-use design provides just one deeded parking stall per condominium unit.
- Creates higher density. The project replaces a single-story commercial building with more than 40 condominiums and nearly 1000 square feet of commercial space integrated into a five story building.
- Promotes sustainability. The building is designed to achieve LEED Silver certification.
- Appeals to the community. The project is attractive, visually interesting, and addresses the main (900 South) and side (Jefferson) streets, while cloaking its parking behind the buildings profiles.

Community Development Corporation of Utah proceeded with full design development of the building. While performing due diligence, CDCU discovered serious geotechnical issues with the property that were previously unknown. This forced some redesign to keep the project feasible without significantly changing the project features as outlined above, and caused additional expense to be incurred. CDCU engaged a reputable architectural firm with experience designing similar projects, a notable general contractor to assist with the value engineering work, and a certified building commissioner. Work proceeded quickly and construction drawings were completed and remain ready for application for building permits. CDCU's hard cost investment to date exceeds \$400,000.

Meanwhile, the economy had begun its slide into the worst recession since the Great Depression, brought on by unreasonably loose credit access that evolved into toxic mortgage-backed securities and a national residential real estate market collapse. Growth since the nadir of the recession has been anemic. The results, as they apply to Ninth Street Place, are significant:

- Construction and permanent financing for housing development tightened, and has been completely unavailable for condominium projects.
- Mortgage lending standards for homebuyers and condominium projects contracted drastically.

In short, Ninth Street Place could not secure construction and take-out financing, nor could homebuyers, most of whom had already exited the market, find mortgage financing.

These circumstances naturally led to a jump in condominium inventory and the resulting fall in prices. Because of the unsettled and dynamic nature of the market, it was impossible to predict when to bring a project like Ninth Street Place to market, how to price it, and how much demand would be realized.

The RDA offered to CDCU three subsequent extensions in an attempt to help weather the economic downturn and credit crisis. The most recent of these extensions expires in May 2011.

During this period, CDCU has watched for market conditions to stabilize and possibly improve, and it has closely monitored the real estate and finance markets. Recently, it completed a comprehensive study of condominium development and absorption for the downtown Salt Lake City area. This study, which tracks every recorded unit built in the footprint north of 1300 South shows meager sales activity and growing inventories for the past two years. To illustrate, and despite a lot of marketing static to the contrary, only one condominium project has sold out in the past 24 months. Still, these data also give clear indications about how to price and sell condominium units in the current market.

Officers of CDCU met with the leadership and staff of the RDA on 3 September 2010 to present and discuss options that can help to make the project feasible. These options included:

- Shrinking the size of the project, and thereby reducing the number of units and overall project cost.
- Phasing the project, i.e. building one section of the main structure, then the other, in order to reduce the construction and permanent financing needs to two smaller portions while also reducing the number of units that come online in the market at one time (making sales traction easier to achieve, and compliance with FHA and Fannie Mae less troublesome).
- Leasing (to own) a portion of the condominiums.
- Issuing a Residential Rehabilitation Bond to help fund project construction and mortgages.
- Finding additional project equity.
- Identifying a source of down payment assistance for the homebuyers.
- Having Salt Lake City Corporation purchase some units to resell with three percent mortgages (through the First Time Home Buyer program).
- Wait for full market recovery.

- Having the RDA to purchase the construction drawings so that part or all of the project can be developed by others.

Community Development Corporation of Utah has spent the time since it was granted the last extension, performing a full analysis of the project's feasibility. That process has included:

- Consulting with the architect about how to reasonably phase the project. The architect states that this would "require minimal redesign, as the project is essentially construction ready."
- Receiving hard bids from three contractors capable of building Ninth Street Place. These bids indicate that the project can be built for not much more than \$5 million, which is almost half of the original bid amounts three years ago. This is directly attributed to the decline in construction costs.
- Researching and evaluating sales data to determine new pricing for the units. CDCU believes it now has established a firm pricing floor.
- Meeting with potential development partners who can bring additional construction and marketing expertise to the project.

To this last point, CDCU has now partnered with Ivory Homes, Utah's Number One Homebuilder, for the construction, marketing, sales, and mortgage financing. CDCU and Ivory Homes are working vigorously together to review the project plans and market realities to fine tune the project in order to ensure the best possible opportunity for success. For instance, Ninth Street Place was originally designed with a high proportion of one bedroom units, which, at the time, were well suited for the market. However, market demands appear to require more two bedroom units. So, without changing the exterior design of Ninth Street Place, the partners are quickly reworking some of the interior space to collapse several one bedroom units into two bedroom condominiums. This will help ensure faster market absorption and overall project success.

As CDCU identifies financing, it would be helpful to have a preliminary acceptance of the following points from the RDA:

- CDCU has the option of phasing the project by building the 900 South facing section of the building first. This phase would include the elevator core, commercial space, rooftop plaza, and most of the landscaping. It would also include the development of all necessary infrastructure to support the entire project, including the parking area behind the building. CDCU would start construction on the second phase as soon as a critical mass of sales in the first phase was closed.
- CDCU will not be required to develop the three live-work units on the small parcel located to the west of the main project site. CDCU is willing to sacrifice this section of the development for consideration against the property purchase price.
- RDA will work with CDCU to put the necessary project financing in place including a commitment of loan monies by the RDA in an amount to be determined through discussions with lenders. The goal is to put as much private capital in the first position, and supplement with the RDA financing in a subordinated position.

Conceivably, the project may require the full \$2.5 million in RDA funding that has been discussed previously. And, it would need to be rolled over from the first to the second building phase.

- RDA will consider providing funding for down payment assistance loans/grants that are not restricted by income eligibility. Current housing financing conditions require down payment assistance, and CDCU and Ivory Homes have decades of combined success administering these types of programs.

Community Development Corporation of Utah enjoys very cautious optimism about the Ninth Street Place project and, during the next two months, will:

- Finalize the project budget and proforma for review by the RDA.
- Identify sources and totals for project construction and permanent financing, including the RDA component of subordinated debt financing.
- Prepare a list of issues to be considered by the RDA and CDCU that will need to be addressed in order for the project to break ground.