

DATE: April 12, 2011

ITEM: 7.A.(1)

RE: CONSIDERATION AND ADOPTION OF A RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY APPROVING AN AMENDMENT TO THE PURCHASE AND SALE AGREEMENT WITH TANNACH PROPERTIES L.L.C. FOR THE DEVELOPMENT OF AGENCY OWNED PROPERTY LOCATED AT 237-255 SOUTH STATE STREET AND 241 AND 247 FLORAL STREET.

PROJECT AREA: Central Business District

PREPARED BY: Matt Dahl

EXECUTIVE SUMMARY: In July 2010, the Redevelopment Agency of Salt Lake City (RDA) and Tannach Properties LLC (Tannach) executed a Purchase and Sale Agreement for the Development of Agency owned property located at 237-255 South State Street and 241 and 247 South Floral Street (the "Property"). Tannach is requesting an amendment to the Purchase and Sale Agreement that would modify the number and types of units required as part of the Developer Improvements. The Purchase and Sale Agreement currently requires the development include 157 apartment units. Tannach is requesting to increase the number of apartment units from 157 to 180.

ALTERNATIVES:

1. Approve the resolution.
2. Approve the resolution with changes.
3. Do not approve the resolution.

ANALYSIS AND ISSUES: In July 2010, Tannach and the RDA executed a Purchase and Sale Agreement that outlined the requirements for the sale and development of the Property. Included in the requirements were terms that were derived from Tannach's development proposal and the basic design.

The project will include the restoration of the front and back facades of the Regis and Cambridge Hotels. The façade materials will be removed from their current location and stored while the remaining structures are demolished. The northern two buildings will be replaced by a new ten-story multi-family apartment building, while the southern buildings will be replaced by a new seven level apartment building. The ten and seven story structures will appear to be different buildings, but will be connected on six residential floors. The entirety of the development's ground floor will be used as commercial space, including the construction of a new theater in the

southern part of the development that will incorporate historic features of the Rex Theater. The Purchase and Sale Agreement originally indicated that the development would include 157 ($\pm 5\%$) residential apartment units with a mix of studios, one-, two-, and three-bedroom units. Of the units, 41 ($\pm 5\%$) were to be market rate (no income requirements), 38 ($\pm 5\%$) were to be designated for those making 60% or less of the Area Median Income (60% AMI), and 78 ($\pm 5\%$) were to be designated for those making 35% or less (35% AMI).

In October 2010, the RDA Board approved a request by Tannach to reduce the number of 35% AMI units from 78 to 63, and to increase the number of 45% AMI units from 0 to 15. This change was meant to meet the debt service requirements of potential lenders and investors in the project. When the Board approved the change in the allocation of income restricted units, the units did not have designated unit types.

Tannach is currently requesting another change to the number and type of units in its proposed development. The changes are meant to reflect market research findings and new requirements from lenders and investors. Tannach's request, if approved by the RDA Board, will require an amendment to the Purchase and Sale Agreement. The following is the new unit mix proposed by Tannach:

Unit Type	% of AMI	Number of Units
Studio	35%	10
1 Bed/1 Bath	50%	30
1 Bed/1 Bath/Den	60%	24
2 Bed/2 Bath/Den	60%	35
2 Bed/ 2 Bath	Market Rate	26
3 Bed/ 2 Bath	45%	10
3 Bed/ 2 Bath	60%	10
3 Bed/ 2 Bath/Den	60%	10
3 Bed/2 Bath	Market Rate	18
4 Bed/ 2 Bath	60%	7
	Total	180

The changes proposed by Tannach are significant, but the increase in the number of units and unit types should result in a development that increases the level of activity on State Street and provides opportunities for individuals and families with a wide range of incomes. Staff has some concern about the demand for 4-bedroom units, however, Tannach has indicated that there is a demand for such units because they would be the only units of that size available in Downtown.

The Board's approval of the amendment is required before Tannach can submit their plans to the City for building permits. If the Board does not approve the amendment, Tannach will be required to change the project design to reflect the Purchase and Sale Agreement's current terms, or return to the RDA Board with a new proposal.

BACKGROUND:

- Staff marketed the State Street properties from December 2007 until May 1, 2008. No responses were submitted in response to the Request for Proposals.
- In November 2008, the Board directed staff to issue a Request for Letters of Intent for the State Street Properties.
- In May 2009, the Agency received three responses to the Request for Letters of Intent.
- In June 2009, the Agency issued a Request for Qualifications to the three firms who responded to the Request for Letters of Intent.
- On September 3, 2009, two firms responded to the Request for Qualifications.
- On October 13, 2009, the RDA Board approved Resolution No. 665.02, which authorized the Agency to enter into a six-month exclusive negotiation with the La Porte Group/Tannach.
- On April 7, 2010, RAC recommended that the Board approve extending exclusive negotiations with the La Porte Group/Tannach until September 30, 2010. They also recommended that the Board approve the La Porte Group/Tannach's updated design proposal.
- On April 20, 2010, the RDA Board approved an updated version of the La Porte Group/Tannach's development proposal, and extended exclusive negotiations to September 30, 2010.
- On June 2, 2010, RAC recommended that the Board approve the Term Sheet for the purchase and development agreements.
- On June 8, 2010, the RDA Board approved Resolution 679.02, which approved the Term Sheet for the purchase and development agreements. The Term Sheet did not include a purchase price.
- On July 13, 2010 the RDA Board approved Resolution 680.01, which approved an amendment to the Term Sheet that included the purchase price for the property.
- On July 27, 2010 the Purchase and Sale Agreement for the sale of the State Street Property was executed by the RDA and Tannach.
- On October 12, 2010 the RDA Board approved Resolution 683.02, which approved an amendment to the unit income requirements included in the Purchase and Sale Agreement.
- On November 16, 2010, the RDA Board approved Resolution 685.02, which approved an amendment to the Purchase and Sale Agreement that extended the outside closing date to March 31, 2011.
- On February 8th, the RDA Board approved a Resolution, which approved an amendment to the Purchase and Sale Agreement that extended the outside closing date to May 31, 2011. Tannach has not signed the amendment.

ATTACHMENTS: Draft Resolution, Tannach Letter

CONSIDERATION AND ADOPTION OF A RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY APPROVING AN AMENDMENT TO THE PURCHASE AND SALE AGREEMENT WITH TANNACH PROPERTIES L.L.C. FOR THE DEVELOPMENT OF AGENCY OWNED PROPERTY LOCATED AT 237-255 SOUTH STATE STREET AND 241 AND 247 FLORAL STREET.

WHEREAS, the Redevelopment Agency of Salt Lake City (“Agency”) was created to transact the business and exercise the powers provided for in the Utah Community Development and Renewal Agencies Act; and

WHEREAS, the Agency adopted the “C.B.D. Neighborhood Development Plan” on May 1, 1982; and

WHEREAS, the Agency owns certain property within the Central Business District Project Area and desires to redevelop it in accordance with the C.B.D. Neighborhood Development Plan; and

WHEREAS, on October 13, 2009, the Board adopted Resolution No. 665.02 authorizing the Agency to enter into a six-month exclusive negotiation period with The La Porte Group for the development of the Agency-owned property located at 235-255 South State Street and 241 and 247 South Floral Street (the “Property”); and

WHEREAS, on April 20, 2010, the Board adopted Resolution No. 677.01 authorizing the Agency to extend the exclusive negotiation period with the La Porte Group until September 30, 2010; and

WHEREAS, on June 8, 2010, the Board adopted Resolution No. 679.02 approving specific terms that were to be included in the agreements for the purchase and development of the Property; and

WHEREAS, on July 13, 2010, the Board adopted Resolution No. 680.02 approving the purchase price for the Property; and

WHEREAS, on July 27, 2010, the Agency and Tannach Properties, LLC (Tannach), an affiliate of the La Porte Group, executed a Purchase and Sale Agreement for the development of the Property; and

WHEREAS, on October 12, 2010, the RDA Board adopted Resolution 683.02 amending the Purchase and Sale Agreement to require 63 rental units be provided for those making 35% or less of the Area Median Income (AMI) and 15 units for those making 45% or less of the AMI; and

WHEREAS, Tannach has requested to amend the Purchase and Sale Agreement to require the Developer Improvements include 10 ($\pm 5\%$) studio apartments for those making 35% or less of AMI, 30 ($\pm 5\%$) one-bedroom and one-bathroom apartment units for those making 50% or less of AMI, 24 ($\pm 5\%$) one-bedroom and one-bathroom apartment units for those making 60% of AMI, 35 ($\pm 5\%$) two-bedroom and two-bathroom apartment units for those making 60% of AMI, 26 ($\pm 5\%$) market rate two-bedroom and two-bathroom apartment units, 10 ($\pm 5\%$) three-bedroom and two-bathroom apartment units for

those making 45% of AMI, 20 (±5%) three-bedroom and two-bathroom units for those making 60% of AMI, 18 (±5%) market rate three-bedroom and two-bathroom units, and 7 (±5%) four-bedroom and two bathroom units for those making 60% or less of AMI.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY, that we do hereby approve amending the Purchase and Sale Agreement to require the Developer Improvements include 10 (±5%) studio apartments for those making 35% or less of AMI, 30 (±5%) one-bedroom and one-bathroom apartments for those making 50% or less of AMI, 24 (±5%) one-bedroom and one bathroom apartment units for those making 60% of AMI, 35 (±5%) two-bedroom and two-bathroom apartment units for those making 60% of AMI, 26 (±5%) market rate two-bedroom and two-bathroom apartment units, 10 (±5%) three-bedroom and two-bathroom apartment units for those making 45% of AMI, 20 (±5%) three-bedroom and two-bathroom units for those making 60% of AMI, 18 (±5%) market rate three-bedroom and two-bathroom units, and 7 (±5%) four-bedroom and two bathroom units for those making 60% or less of AMI.

BE IT FURTHER RESOLVED, that we do hereby authorize the Chief Administrative Officer and the Executive Director to negotiate the form of an amendment to the Purchase and Sale Agreement between the Redevelopment Agency of Salt Lake City and Tannach that incorporates the changes to the number of units, type of units, and income restrictions, as well as previously approved amendments. The authorization to negotiate the form of the amendment and the RDA Board's approval of the changes shall expire on April 22, 2011 if the amendment has not been executed. The amendment shall also incorporate such other terms as recommended by Agency legal counsel.

Passed by the Board of Directors of the Redevelopment Agency of Salt Lake City, this 12th day of April, 2011.

Luke Garrott, Chairperson

ATTEST:

D. J. Baxter, Executive Director

Transmitted to the Chief Administrative Officer on _____. The Chief Administrative Officer

___ does not request reconsideration

___ requests reconsideration at the next regular Agency meeting.

Ralph Becker, Chief Administrative Officer

ATTEST:

D. J. Baxter, Executive Director

Approved as to form: _____
Jones, Waldo, Holbrook & McDonough, P.C.



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April 8, 2011

Mr. Matt Dahl
Redevelopment Agency of Salt Lake City
451 S. State Street, Room 418
Salt Lake City, Utah 84111

RE: Tannach Purchase & Sales Agreement Amendment Explanation

Dear Mr. Dahl,

Respectfully, I would like to take this opportunity to explain the reasoning behind our request to revise the unit mix in the Purchase and Sales Agreement for the State Street properties. Essentially the market has changed substantially since we first entered into the agreement to purchase the properties. Investor credit pricing has declined and lender requirements have tightened. Our initial investor, Key Bank, is no longer in the market which has forced us to look to new partners. Overall, the timing of this project has been very difficult to finance because of the economy and the new lending requirements that we are facing.

Originally we were planning to finance this project using 9% Low Income Housing Tax Credits which would have provided the primary means to finance the development. Because of Utah Housing Corporation's site control threshold requirement we were unable to pursue a 9% credit award. We then looked to 4% Low Income Tax Credits and Tax Exempt Bonds to finance the project. When we used the original unit mix and AMI targeting in the 4% bond model the project was faced with a substantial financing gap. We had no other choice than to find ways to maximize the income so lenders would allow a higher debt service to fund this gap. We achieved this by increasing the number of units and adjusting the AMIs on some of the units while keeping overall project AMI at the same level. The development is still targeting low income households.

The lenders that we have been working with have also been requiring much more stringent requirements. The development now has to meet a 1.20 debt service ratio and the operating reserves requirements are higher than we have ever seen. Before the market downturned the debt service requirement would have been 1.10 or 1.15. These new requirements are the primary reason for the need of a higher income on the project.

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All of these factors combined simply required that we find ways to increase and maximize income so that lenders would be willing to finance at the level necessary to cover the expense of building the State Street Plaza. I hope that you can see why these changes were necessary and I look forward to further explaining in person at the next board meeting.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Logue".

Ben Logue
Managing Member
Tannach Properties, LLC