

DATE: July 12, 2011

ITEM: 8.A.

RE: CONSIDERATION AND APPROVAL OF A REQUEST FOR AN EXTENSION OF A LOAN BETWEEN THE REDEVELOPMENT AGENCY OF SALT LAKE CITY AND 358 OFFICE ASSOCIATES, LLC

PROJECT AREA: Depot District Project Area

PREPARED BY: Jill Wilkerson-Smith

EXECUTIVE SUMMARY: In June 2006, the RDA executed a Purchase and Sale Agreement with 358 Office Associates, LLC (“Borrower”), to purchase a property owned by the RDA located at 365 South 500 West, adjacent to two properties owned by the Borrower (CG Howells Building). The purchase involved a loan provided by the RDA to the Borrower in accordance with the RDA’s Property Acquisition Loan Program. The loan reached maturity on June 30, 2011. The Borrower is seeking a two-year extension of its loan under the RDA’s newly adopted Loan Extension Policy.

ALTERNATIVES:

1. Approve the extension of the loan pursuant to the new loan extension guidelines.
2. Do not approve the extension of the loan and proceed with the remedies provided the RDA under the default provisions of the Promissory Note.

LOAN COMMITTEE RECOMMENDATION: Since the loan was approved as a land disposition, it was not originally reviewed by the Loan Committee. As such it should be solely reviewed and considered by the RDA Board.

ANALYSIS AND ISSUES: In June 2006, the RDA Board approved the execution of a Purchase and Sale Agreement between the RDA and 358 Associates, LLC (“Borrower”), owner of the CG Howells building that sits adjacent to a small strip of land owned by the RDA. Salt Lake City Corporation deeded the property to the RDA in exchange for the RDA funding the 500 West Park Blocks improvements. The RDA offered to sell the property to the Borrower to add it to their current holdings located just east of the subject property. On June 30, 2006, the RDA entered into a Purchase and Sale Agreement with the Borrower for a sales price of \$162,000, based on the property’s appraised value. The RDA also executed loan documents with the Borrower, thereby extending a property acquisition loan. The rate on the current loan is 5% with a 20-year amortization and a 5-year balloon. The loan came due on June 30, 2011 with an outstanding principal balance

of \$136,202.11. The current monthly payment is \$1,069.13, and the default rate of the loan is 18% per annum on the current principal balance. If the Borrower were to default on the loan this month, the monthly payment would increase to \$2,102.02.

The Borrower is now requesting a two-year loan extension from the RDA while simultaneously seeking other lending sources to refinance the loan. Mr. David Gaskill, principal partner of 358 Associates, indicated to the RDA that lenders have not been willing to assist in refinancing this loan due its nature as a land loan. However, Mr. Gaskill states his intention to pay off the loan before its two-year timeframe is complete if credit markets improve. Staff has asked Mr. Gaskill to provide letters from lenders to share with the Board, but we have not received any at this writing.

Under the terms of the Loan Extension Policy, the structure of the extended loan would be as listed below, including all associated legal fees and a 1% extension fee based on the outstanding principal balance:

- Outstanding Principal Balance: 136,202.11
- Interest Rate: 11.25% (8% + Prime Rate)
- Term: 10-year amortization with two-year balloon
- New Monthly Payment: \$1,895.51

The Borrower has provided current information to the RDA so that staff can assess the Borrower's ability to pay, and determine its financial status as defined by the Loan Extension Policy's Extension Criteria. These have or have not been satisfied as follows:

Loan Extension Criteria	Satisfaction of Loan Criteria by Borrower
1) The borrower should be in compliance with all terms of its RDA Loan.	1) The Borrower is current on its loan payments.
2) The borrower shall provide evidence that they have unsuccessfully sought refinancing from at least two legitimate lending institutions.	2) The Borrower has not provided this information, but claims to have been denied loan requests in the last few months (see attached letter in loan documentation for explanation).
3) The borrower shall provide financial documentation, including tax returns, account balances, and other financial statements, showing that they are unable to reasonably pay the balloon payment.	3) The Borrower has provided its latest bank statement, balance sheet/rent roll/income statement, and tax returns for the last three years. The Borrower's net monthly income for all three properties in March was \$7,790.55.
4) The borrower shall provide all	4) The Borrower has provided its DCR/LTV analysis,

<p>necessary documentation to verify their project's loan-to-value ("LTV") and debt service coverage ("DCR") requirements.</p> <p>5) The borrower shall provide sufficient information to confirm that all loan guarantors will continue to guaranty the loan and have the financial resources to do so.</p>	<p>which has been verified by staff. The project's DCR is 1.27 (1.1 required minimum per RDA). Taking the Borrower's combined 2010 assessed property value of \$2,846,500 divided by its total outstanding loan amount of \$2,080, 729, the project LTV is 73%, which is within the 95% maximum required.</p> <p>5) The RDA holds the only mortgage on the loan subject property.</p>
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Based on information received by staff, it is not unreasonable to deny the Borrower's request, however the Board may wish to ask the Borrower for proof of loan request rejection in the form of letters from other lenders, as required the Loan Extension Criteria.

ATTACHMENTS: Loan Request Letter and Pertinent Documentation from 358 Associates, LLC.



358 Office Associates Loan Request

**27,000 S.F. Office Building
and Undeveloped Pad
358 South Rio Grande Street
400 South, Salt Lake City Utah**

Brief Description: 358 Office Associates is a partnership formed by the owner / occupants of the office building located at 358 South Rio Grande Street in Salt lake City, Utah. In July of 2006 358 Office Associates purchased the contiguous western parcel from the RDA. The purchase of the land was financed by the RDA and that note is now due.

Extension Request:

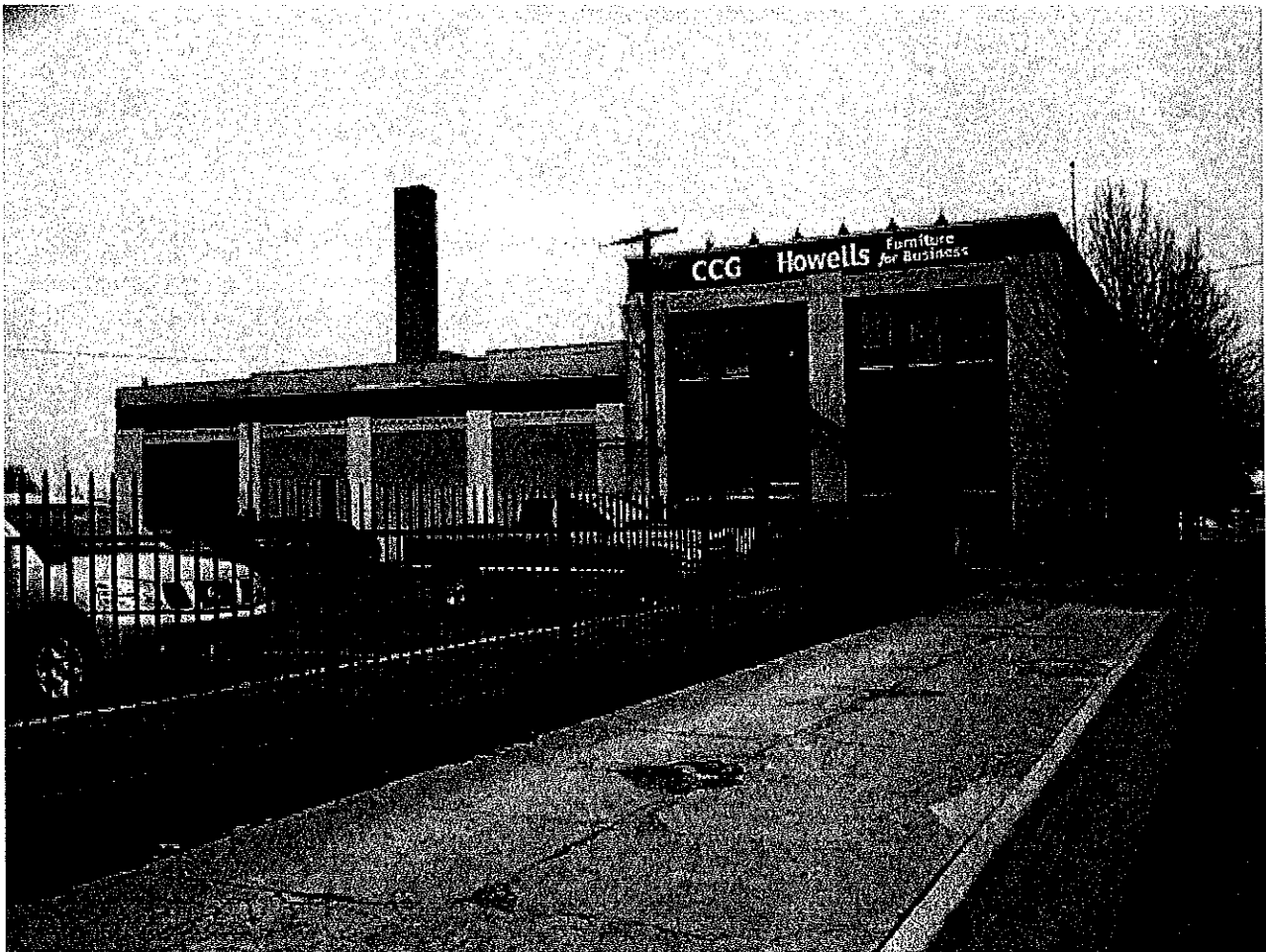
Due to economic conditions, and the lack of credit available in the national lending markets, 358 Office Associates has not been successful in refinancing the RDA Note. Land loans are nearly nonexistent in today's lending environment. 358 Office Associates will be refinancing the office building parcel within the next two years and believes it can include the land parcel in a new term note which would pay off the RDA Note. 358 Office Associates also believes the credit markets will improve significantly within the next two years in which time it can refinance the RDA Note with a new lender and pay off the RDA Note. 358 Office Associates requests a two year extension from the RDA in order to accomplish either of the two refinancing plans outlined in this paragraph.

Intended Use: 358 Office Associates intends to eventually develop the parcel into restaurant, retail, office, residential, or mixed use.

Amsource

27,000 S.F. Office Building
and Undeveloped Pad
358 South Rio Grande Street
400 South, Salt Lake City Utah

Office Building:





27,000 S.F. Office Building and
Undeveloped Pad
358 South Rio Grande Street
400 South, Salt Lake City Utah

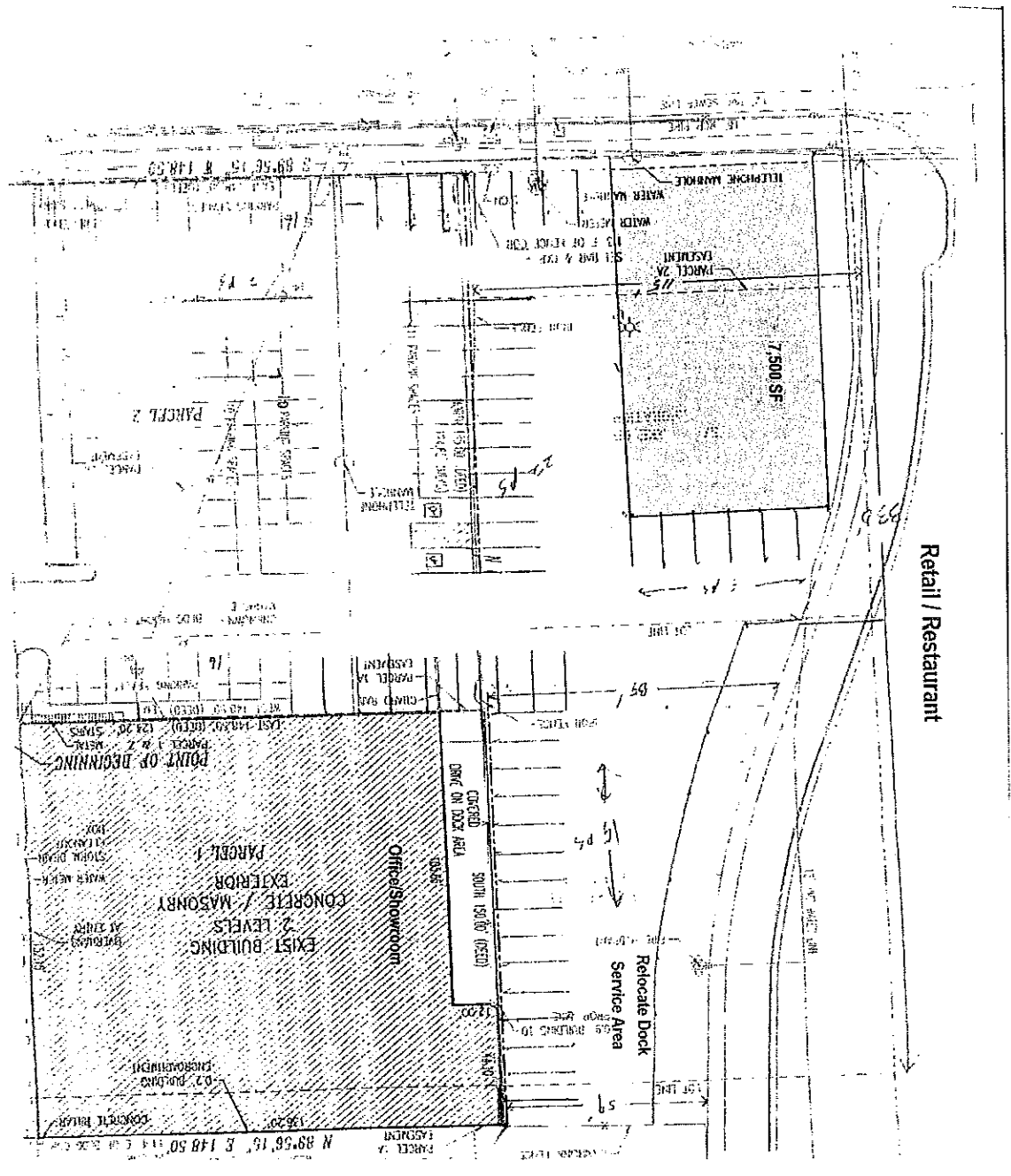
Undeveloped Parcel:



Amsource

27,000 S.F. Office Building
and Undeveloped Pad
358 South Rio Grande Street
400 South, Salt Lake City Utah

Site Plan:



Project: 358 Office Associates, LLC
 Developer: Amsource Realty Advisors, L.L.C.
 Amsource Companies
 Salt Lake City, Utah (801) 994-7000 www.amsource.com
 Contact: David R. Gaskill: 801-741-4545, david@amsource.com

Regarding evidence that we have unsuccessfully sought refinancing from at least two legitimate lending institutions.

As we are in the development business, we are constantly working with banks on current and new loans. Over the last couple of months I have informally talked to three of our existing lenders (on other projects) about a new land loan for the west parcel (the RDA loan parcel). In each instance I met resistance from the lenders as "land loans" are something that the big commercial banks are not interested in pursuing right now.

I do not have any formal rejection letters as all of my requests were oral. In all three cases our loan officers did not even want to waste any time taking a land loan to their credit committees as it was already bank policy not to do land loans.

At this point we are trying to refinance the RDA balloon payment by pursuing credit through private bank relationships or at the bank branch level. This is will take more than 30 days.

Although we are attempting to gain financing through new lenders, we are not entirely confident we will be successful. Land loans seem to a loan that no bank wants a part of.

Therefore, we would like to request an extension from the RDA as a backup position. We can certainly provide formal denial letters from banks within the next 30 day period if needed. Alternatively, if we can get a new loan in place we will pay the balloon payment immediately.

Thanks,
Dave Gaskill
358 Office Associates

**358 Office Associates
Debt Coverage Analysis**

Gross Rents		
Amsource Realty Advisors	3856	61,696
EDP 358	3644	58,304
CCG Howells	19669	314,704
	27169	<u>434,704</u>
Vacancy	5.00%	21,735
Full Service Operating Expenses	\$ 3.14	85,311
Management	3.00%	13,041
Reserves	1.00%	<u>4,347</u>
		124,434
Net Operating Income		310,270
Mortgage - Ameritus		221,471.28
Mortgage - RDA (estimated)		<u>23,142.00</u>
		244,613.28
Total Mortgage Payments		244,613.28
Debt Coverage Ratio		1.27

Accrual

Report includes an open period. Entries are not final.

Mar 2011

ASSETS

CURRENT ASSETS

CASH & EQUIVALENTS

Checking - OP 12,949.16
Savings - SV 94.40

TOTAL CASH & EQUIVALENTS 13,043.56

ACCOUNTS RECEIVABLE

Rents Receivable 42,486.73

TOTAL ACCOUNTS RECEIVABLE 42,486.73

PREPAIDS

PPD-SID Tax 290.74

TOTAL PREPAIDS 290.74

TOTAL CURRENT ASSETS 55,821.03

LONG-TERM ASSETS

LAND, BUILDING & EQUIPMENT

Land 435,000.00
Closing Costs - Land 840.50
Building - Existing 1,083,075.25
Site Work 153,000.00
Loan Points & Fees 26,700.00

TOTAL LAND, BUILDING & EQUIPMENT 1,698,615.75

ACCUMULATED DEPREC. & AMORT.

Accumulated Depreciation (286,003.24)
Accumulated Amortization (19,505.41)

TOTAL ACCUMULATED DEPREC. & AMORT. (305,508.65)

TOTAL LONG-TERM ASSETS 1,393,107.10

TOTAL ASSETS 1,448,928.13

Accrual

Report includes an open period. Entries are not final.

Mar 2011

LIABILITIES

CURRENT LIABILITIES

ACCOUNTS PAYABLE

Accounts Payable - OP 23,224.98

TOTAL ACCOUNTS PAYABLE 23,224.98

ACCOUNTS PAYABLE - OTHER

AP-Property Tax 10,307.43

AP-Accrued Interest 10,693.70

AP-Management Fee 500.00

TOTAL ACCOUNTS PAYABLE - OTHER 21,501.13

TOTAL CURRENT LIABILITIES 44,726.11

LONG-TERM LIABILITIES

LONG-TERM LOANS

SLC 08/01/26 20/20 5.00% 137,694.55

Ame 12/01/23 20/20 6.25% 1,943,034.57

TOTAL LONG-TERM LOANS 2,080,729.12

TOTAL LONG-TERM LIABILITIES 2,080,729.12

TOTAL LIABILITIES 2,125,455.23

OWNER EQUITY

CAPITAL

Capital-ARA (134,821.17)

Capital-Howell Systems In (704,876.23)

Capital-BNA Park City, LL (131,678.85)

TOTAL CAPITAL (971,376.25)

CURRENT YEAR DISTRIBUTION

Dist-UT Tax-ARA (359.00)

Dist-UT Tax-Howells (1,832.00)

Dist-UT Tax-BNA Park City (340.00)

TOTAL CURRENT YEAR DISTRIBUTION (2,531.00)

CURRENT & RETAINED EARNINGS

Current Year Earnings 29,353.39

R.E. - Amsource Realty 44,200.15

R.E. - Howell 190,885.47

R.E. - BNA Partners 32,941.14

TOTAL CURRENT & RETAINED EARNINGS 297,380.15

TOTAL OWNER EQUITY (676,527.10)

Database: AMSOURCE
ENTITY: 064

Balance Sheet - Detail
Amsource Companies
358 Office Plaza Associates LC

Page: 3
Date: 5/27/2011
Time: 11:24 AM

Accrual

Report includes an open period. Entries are not final.

Mar 2011

TOTAL LIABILITIES AND EQUITY

1,448,928.13

Income Statement
Income Statement - Detail
Amsource Companies
358 Office Plaza Associates LC

Accrual

Report includes an open period. Entries are not final.

	Current Period	Year-To-Date
Thru:	1 Month	3 Months
	Mar 2011	Mar 2011

OPERATING INCOME

RENTAL INCOME

Rental Income	36,225.33	108,675.99
Late Fees	244.03	732.09
Total Rental Income	36,469.36	109,408.08

TOTAL OPERATING INCOME	36,469.36	109,408.08
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EXPENSE

NON-RECOVERABLE EXPENSES

N-CAM SID tax	145.38	436.14
Management Fees	500.00	1,500.00
Mngt Fee-ARA	1,052.69	3,158.07
Mngt Fee-Howell's	5,370.34	16,111.02
Mngt Fee-BNA	0.00	(8,953.29)
N-CAM Building Maint.	494.50	2,059.61
N-CAM HVAC Maint	0.00	745.60
N-CAM Garbage	260.00	790.21
N-CAM Snow Removal	135.44	1,050.00
N-CAM Electricity	1,380.55	4,210.15
N-CAM Gas	922.89	4,267.36
N-CAM Water/Sewer	101.73	325.69
N-CAM Insurance	273.00	819.00
N-CAM Property Tax	3,435.81	10,307.43
Total Non-Recoverable Expenses	14,072.33	36,826.99

ADMINISTRATIVE EXPENSES

Legal	72.94	364.69
Bank/Finance/Late Charge	483.29	578.76
Total Administrative Expenses	556.23	943.45

TOTAL OPERATING EXPENSE	14,628.56	37,770.44
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NET OPERATING INCOME	21,840.80	71,637.64
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DEPRECIATION/AMORTIZATION/DEBT SERVICE

Depreciation	3,134.08	9,402.24
Amortization	222.47	667.41
Interest - Long-Term	10,693.70	32,214.60
Total Depreciation/Amortization/Debt Service	14,050.25	42,284.25

NET INCOME	7,790.55	29,353.39
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Bldg Id-Suit Id	Occupant Name	Rent Start	Expiration	GLA Sqft	Monthly Base Rent	Annual Rate PSF	Cost Recovery	Expense Stop	Other Income	Monthly Income	Cat	Date	Future Rent Increases	Monthly Amount	PSF
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Leased and Unoccupied Suites

064 -250 Barlow-Nielsen Associates 9/1/2003 8/31/2018 3,644 v 4,858.67

Stop Bill Date: 4/30/2011

Occupied Suites

064 -100 CCG Howells 9/1/2003 8/31/2018 19,669 26,225.33 16.00
 064 -200 Amsource Realty Advisors 9/1/2003 8/31/2018 3,856 5,141.33 16.00
 064 -250 EDP 358, LLC 5/1/2011 8/31/2018 3,644 4,858.67 16.00

Totals:
 Leased/Unoccupied Sqft: 27,169 0.00
 Occupied Sqft: 27,169 0.00
 Vacant Sqft: 0
 Total Sqft: 27,169 36,225.33

Grand Total:
 Leased/Unoccupied Sqft: 27,169 0.00
 Occupied Sqft: 27,169 0.00
 Vacant Sqft: 0
 Total Sqft: 27,169 36,225.33

v = Excluded from totals, space occupied by another tenant