JAJ Development

Sugarmont Court

The Need

Sugarhouse is one of Salt Lake City's most desirable areas to live and attracts singles and young couples who need a nice, yet affordable place to live. In this area the median mortgage is $1,447, the average income is $51,893 and with 37% of people renting it makes finding a nice apartment difficult for the average person. With recent plans by the Salt Lake City Redevelopment Agency and other private investors the attractiveness of Sugarhouse will continue to increase and it will become more and more difficult to attract the unique and sustainable people who have helped make it the place it is today.

The Project

Develop a 104 Unit Apartment Complex qualified under the Utah Housing Corporation's Tax Credit Assistance Program (TCAP) that will attract households from a broad range of incomes and provide them the opportunity to live affordably and comfortably. The project will entail several European style apartments, where space is limited, yet maximized like you would find at IKEA. It will include studio, one and two bedroom apartments with targeted renters between 20 to 30 years old who are environmentally minded and are looking for an affordable place to live. The project is located at the corner of 900 East and Sugarmont Drive in Salt Lake City where there are currently four abandoned tennis courts. With a future streetcar line right across from the project area, this multi-family unit housing will complement the Sugarhouse Master Plan and promote the best use of this land. It will fulfill the need of housing for singles or couples looking for an affordable place to live as well as take advantage of the following amenities:

- Future Street Car line across the street
- Westminster College and The University of Utah
- Smiths and Whole Foods grocery stores within walking distance.
- Movie theatre, many restaurants, night life all within walking distance
- Sugarhouse Park and Fairmont Park
- Forest Dale Golf Course
- Park City, Snowbird, Alta Ski resorts all within a half hour drive

Salient Facts
The Apartment Complex Project Includes

- 40% Low Income Target Market
- .68 Acres of Land
- Building Square Footage 72,914 SF
- Gross Leasable Area 64,025 SF
- Land to Bldg. Footprint Ratio 1.63
- 104 Units
- Covered Parking
- Storage Areas
- $117 per sq ft construction cost
- Laundry Facility
- Bike racks & Indoor bike storage
- Proposed Street Car Line Stop

The Project Area

The Project Description

Land to Building Use	
Building Total SF	72914.3
Total Stories	4
Underground Parking	1
Building Footprint	18228.6
Parking SF	18179
Land SF	29700
Gross Leasable Area	64025
% of GLA	88%
% of Total Land to building foot print	163%
% of Total building to land	246%

The project will be submitted as a proposal to the Utah Housing Corporation seeking Tax Credits funded through the Tax Credit Assistance Program. The project is focused on developing multi-family units for households across a broad range of incomes with more units available to mid range incomes in order to maintain the long term sustainability. To qualify we must maintain 40% of the units rented at 60% Area Median Income (AMI). Under our proposal 42% of the units will be affordable units with rents not exceeding the 60% Area Median Income (AMI). The building would be 4 stories tall with one level of secluded underground parking. To enter the parking garage tenants would have to go through a roll-up door. This feature is designed to add security to the project.

Zoning

Currently Salt Lake City has classified and zoned the property as “Open Use”. In order to change the zoning the Parks Department needs to evaluate the land usage and declare the property as a surplus. To complete the Zoning change there would need to be a Master Plan Amendment created and passed by the City Council. In an effort to facilitate this change our project has agreed to construct two tennis courts in the nearby Fairmont Park. This project would fall into the Sugarhouse Community Master Plan and be the best use of this land. To allow for the zoning change the proposal would be submitted to the Utah Housing Corporation in the fall of 2012 with planned construction in 2013.

Energy Efficiency

Due to the location in Sugarhouse and the Utah Housing Credit Allocation Plan promoting points for green and sustainable design this project will be LEED Silver Certified. Direct proximity to the new street car line as well as adjacent bicyle lanes will make alternative transportation very accessable. High efficiency, energy star rated, fixtures and appliances in each unit will help the development as a whole be low impact for the renters and property manegers. By using geo-thermal heat pumps, the monthly heating and cooling costs can be aleviated. Most of the untis also maximize southern exposure which allows for natural light into nearly every space. Operable windows will allow for cross ventilation and increased comfort. By creating an energy efficient living environment, the units will be cost effective to operate and comfortable to live in.

Experience

Our team members have over 15 years of construction management experience and 8 years architectural experience, including one LEED accredited professional. We propose to use those skills as well as the expertise of an experienced asset manager who has been heavily involved in the low income housing programs in Utah and other states.

TAX Credit Housing

The units have been tiered in a way to promote the most possible points in the application process as developed under the State of Utah Housing Credit Program Allocation Plan. The allocation criteria has been thoroughly reviewed and communication with Claudia O'Grady, VP of Multifamily Finance at the Utah Housing Corporation, allowed us to consider the most points and still align with the Sugar-house Master Plan. The AMI is found on the Utah Housing Corporation Website but since the cost of utilities will be paid by the tenant, it was necessary that we determine the Utility allowance to include it as part of the gross rent. Below is the Tiered Rent Schedule:

	Units	SF	Rent Price	Revenue	Cost of Vacancy	Monthly Revenue	Annual Revenue
Regular Market Rent					10%		
Studio	12	500	$882	$10,584	$1,058	$9,526	$114,307
Studio	13	600	$882	$11,466	$1,147	$10,319	$123,833
1-Bed	12	550	$944	$11,333	$1,133	$10,200	$122,394
1-Bed	13	650	$944	$12,277	$1,228	$11,049	$132,594
2-Bed	5	800	$1,134	$5,670	$567	$5,103	$61,236
2-Bed	5	900	$1,134	$5,670	$567	$5,103	$61,236
Mid Rent Ranges 40%-45% AMI 42.5%							
Studio	4	500	$521	$2,083	$208	$1,874	$22,491
Studio	4	600	$521	$2,083	$208	$1,874	$22,491
1-Bed	7	550	$557	$3,902	$390	$3,512	$42,144
1-Bed	8	650	$557	$4,460	$446	$4,014	$48,164
2-Bed	2	800	$669	$1,339	$134	$1,205	$14,459
2-Bed	1	900	$669	$669	$67	$602	$7,229
Upper Rent Range 45% to 50% AMI 47.5%							
Studio	2	500	$582	$1,164	$116	$1,047	$12,569
Studio	2	600	$582	$1,164	$116	$1,047	$12,569
1-Bed	1	650	$623	$623	$62	$561	$6,729
2-Bed	1	800	$748	$748	$75	$673	$8,080
2-Bed	1	900	$748	$748	$75	$673	$8,080
Low Rent Range Less than 40% AMI 33%							
1-Bed	4	550	$433	$1,731	$173	$1,558	$18,699
2-Bed	2	800	$520	$1,040	$104	$936	$11,227
Transitional Units Below 25% AMI							
Studio	5	475	$245	$1,225	$123	$1,103	$13,230

	Woodlands Senior Apartments	Windsong Apartments	Rendon Terrace Apartments	Brill Apartments Phase I	Woodruff Apartments	Tuscany Villas Senior Apartments	Onema Court Apartments
	2011-19	2011-11	2011-06	2011-21	2011-25	2011-13	2011-16
PROJECT COUNTY	Box Elder	Davis	Salt Lake	Salt Lake	Salt Lake	Salt Lake	Grand
TOTAL UNITS	48	60	70	137	48	76	60
TYPE	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4
UNIT MIX (by affordable bedroom type)	0-32-15-0-0	0-0-50-10-0	0-62-8-0-0	0-97-25-15-0	15-18-15-0-0	6-52-18-0-0	0-15-30-15-0
NEW OR REHABILITATION	New	Rehabilitation	New	New	Rehabilitation	New	New
% OF MEDIAN BEING SERVED	44.00%	43.00%	41.00%	44.00%	43.00%	43.00%	43.00%
% OF PROJECT AFFORDABLE	100.00%	100.00%	100.00%	70.07%	93.75%	100.00%	100.00%
130% DEVELOPMENT AREA	No	No	Yes	No	Yes	No	No
TAX CREDIT REQUESTED / BEDROOM *	$10,548	$2,795	$10,785	$8,476	$6,139	$9,891	$7,063
TAX CREDITS REQUESTED	$653,961	$363,404	$1,000,000	$1,000,000	$462,864	$929,725	$847,565
1. PREFERENCE CRITERIA							
A. LOWER INCOME TARGETING	5,000	5,000	5,000	5,000	5,000	5,000	5,000
B. CONCERTED REVITALIZATION	0	0	0	0	0	0	0
SUB TOTAL:	5,000	5,000	5,000	5,000	5,000	5,000	5,000
2. SECONDARY CRITERIA							
A. PROJECT LOCATION	200	0	60	60	60	60	200
B. PROJECT CHARACTERISTICS	280	400	280	300	540	280	200
C. SPONSOR CHARACTERISTICS	260	200	260	0	200	200	260
D. TENANTS WITH SPECIAL NEEDS	600	740	720	660	540	700	580
E. FROM PUBLIC HOUSING LIST	200	200	200	200	200	200	200
F. HOUSING NEEDS CHARACTERISTICS	0	0	0	300	60	0	0
SUB TOTAL:	1,540	1,540	1,520	1,520	1,520	1,440	1,440
TOTAL PROJECT SCORE:	6,540	6,540	6,520	6,520	6,520	6,440	6,440

Based on last year's allocation it was critical that we reach a 6,500 Points total to compete.

Adjacent is a projected scorecard of our project based on the "2011 HC Application Rev 2.17_ masters" online application template:

Salt Lake County
Cycle: 2011-12

	SCORE	WEIGHT	EXTENDED SCORE
Preference Criteria			
A. LOWER INCOME TARGETING			
Low-Range:	15	50	750
Mid-Range:	60	50	3,000
Hi-Range:	25	50	1,250
B. CONCERTED REVITALIZATION	0	20	0
		Subtotal:	5,000
Secondary Criteria			
A. PROJECT LOCATION	5	20	100
B. PROJECT CHARACTERISTICS	14	20	280
C. APPLICANT CHARACTERISTICS	0	20	0
D. TENANTS WITH SPECIAL NEEDS	43	20	860
E. FROM PUBLIC HOUSING LIST	10	20	200
F. HOUSING NEEDS	15	20	300
		Subtotal:	1,740
		TOTAL PROJECT SCORE:	6,740

Transitional Housing Units have 2 points for each up to a maximum of 5 units. Partnering with the following special needs groups would enable us to maximize these points:

- Domestic Violence
- HIV/Aids
- Developmentally Disabled
- Mental Illness
- Maturing Foster

In order to maximize our credits we would offer 15 special unit apartments to different groups. We would offer 5 units for homeless or near homeless transitions. We would offer 5 persons with special needs (handicap) units, as well as 5 units for domestic violence. In order to satisfy the requirement to fulfill these needs we would look to work with some of the various agencies who are trying to place these individuals into a nice housing complex.

Occupancy, Vacancy Rates (10%) and Tenant Turnover have all been considered in the project budgets. Along with this analysis, a property management and operations plan has be prepared to submit which addresses important issues such as energy efficiency measures, tenant noncompliance procedures, and other general operating procedures.
The plan also includes the necessary requirements of maintaining documentation of tenants to ensure the qualifications of the low income housing program are being met.

Several qualified individuals have been found that have years of experience with asset management of multifamily housing as well as experience with section 42 low income housing programs in other states. We would look to hire one of these candidates to add expertise into the project to ensure its success.

Deal Economics

The Utah Housing Corporation is responsible for allocating the tax incentive financing for low income housing. IRS Tax Code Section 42 allows Corporation to buy tax credits for the purpose of developing low income housing. Projects are submitted to the Utah Housing Corporation which will award the tax credits to the developer. New projects can qualify for 9% of the total construction cost for a period of 10 years. In simple math terms this means a project can qualify for 90% of the construction costs by using Section 42. The corporation will always have the depreciation of the tax credits. The tax credits are sold from the developer to a corporation on a per dollar rate. The tax credits are sold between $0.70 to $0.85 on the dollar. Currently the tax credits are being sold at $0.83 cents on the dollar. The application to the housing corporation gives the amount of tax credit that can be applied to the project. For our application we would be awarded $5,384,955 based on the application spreadsheet from the Utah Housing Corporation. That tax credit would be sold for $0.83 cents on the dollar leaving us with $4,469,513 in equity to build our project, as shown in the table below. To qualify for more tax credits the ratio of low-income to market rate units could be increased. Due to the location we feel the project would be better served with the split currently allocated.

Equity Raised from IRS Tax credits	
Capital to be applied toward tax credit (hard + Soft	$9,898,543
Tax credit based on 90% of Capital applied	$8,908,689
Capital Raised according to application	$5,384,955
Dollar amount tax credits are being sold to C-corp	$0.83
% of equity raised from tax credit	$4,469,513
Total Equity Raised	$4,469,513

The total cost of the project is $10,641,043. This is based on the following table:

Land Cost	$742,500
Hard Cost (Construction Cost)	$8,133,875
Soft Cost (Overhead and Development Cost)	$1,764,668
Total Cost of Project	$10,641,043
Total Number of Units	104
Total Number of Underground Parking Spaces	70

Based on the equity raised from the section 42 financing we could raise enough capital to have the long term cost be less than the 60% loan to value (LTV) range that is typically desired for most long term financing deals. The long term debt that would be financed would be $6,171,530 or 58% of the value of the project.

The operating cost of a low income housing unit should be between $3,600 and $4,000 per unit per year. Our operating cost is at $3,738 per unit or $388,802 annually. The annual revenue minus the occupancy rate is $880,933. After we have paid out financing and tax our net income for year one would be $73,104. The following table breaks out the 10 year cash flow expected on this project.

Year's:	1	2	3	4	5	6	7	8	9	10
Income Statement										
Revenue										
Revenue From Rentals	$863,759	$881,034	$898,655	$916,628	$934,961	$953,660	$972,733	$992,188	$1,012,031	$1,032,272
Additional Income	$17,174	$17,518	$17,868	$18,226	$18,590	$18,962	$19,341	$19,728	$20,123	$20,525
Total Revenue	$880,933	$898,552	$916,523	$934,854	$953,551	$972,622	$992,074	$1,011,916	$1,032,154	$1,052,797
Operating Expenses	$388,802	$400,466	$412,480	$424,854	$437,600	$450,728	$464,250	$478,177	$492,522	$507,298
Gross Margin	$492,132	$498,086	$504,043	$509,999	$515,951	$521,894	$527,825	$533,739	$539,632	$545,499
Interest Payments	$370,292	$365,608	$360,643	$355,380	$349,802	$343,889	$337,620	$340,906	$336,593	$332,023
Income before tax	$121,840	$132,478	$143,400	$154,619	$166,149	$178,005	$190,204	$192,833	$203,038	$213,476
Income Taxes	$48,736	$52,991	$57,360	$61,848	$66,460	$71,202	$76,082	$77,133	$81,215	$85,391
Net Income	$73,104	$79,487	$86,040	$92,771	$99,689	$106,803	$114,122	$115,700	$121,823	$128,086

The reason to do a low income tax incentive financing is because it is a way to raise money without having to joint venture with someone else. The company who is buying the tax credits will perform the NPV or the IRR rate that they are expecting when purchasing the tax credits. The discount rate used will be based on the corporations weighted average cost of capital (WACC). JAJ development will be paid out the developer fee up front for doing this project and collect small amounts of income over the life of the project.

West Elevation

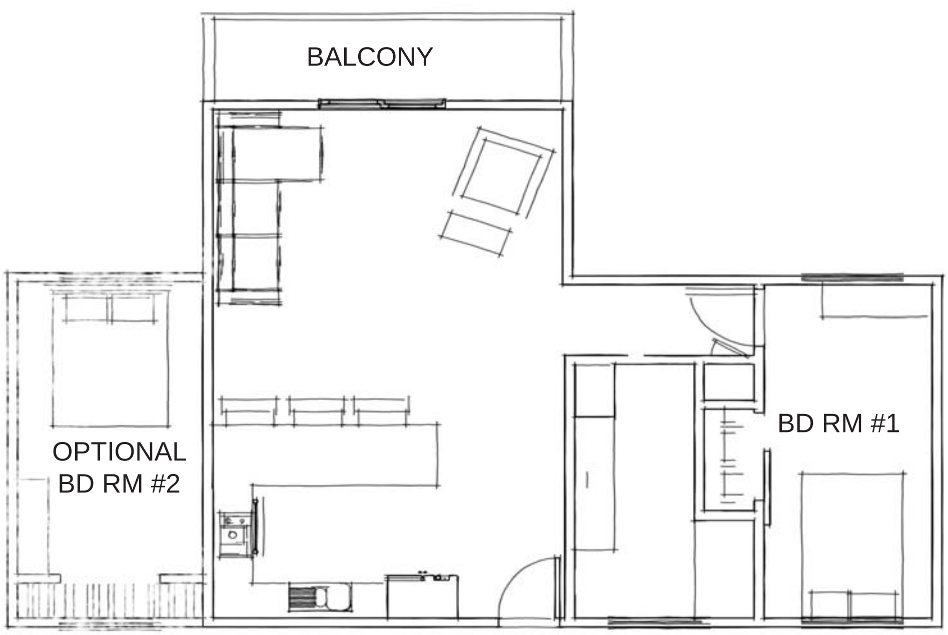
Sugarmont Court

Site Plan

1. Underground parking entrance/exit
2. Interior court yard space
3. Future Sugarhouse Streetcar line

North Elevation

Sugarmont Court



Conceptual Unit Plan