



**DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, JUNE 23, 2021 – 3:00 P.M.**

COMMITTEE MEMBERS PRESENT:

Sonya Delley
Melvin Hollowell
John Naglick
Steve Ogden

COMMITTEE MEMBERS ABSENT:

David Blaszkiewicz

OTHERS PRESENT:

Roger Basmajian (BASCO)
Cora Capler (DEGC/DDA)
Gay Hilger (DEGC/DDA)
Joe Hooker (BASCO)
Malinda Jensen (DEGC/DDA)
Jennifer Kanalos (DEGC/DDA)
Paul Kako (DEGC/DDA)
Glen Long, Jr. (DEGC/DDA)
Rebecca Navin (DEGC/DDA)
Nevan Shokar (DEGC/DDA)



**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, JUNE 23, 2021
ZOOM VIRTUAL MEETING – 3:00 P.M.**

GENERAL

Call to Order

Chairman Naglick called the Finance Committee meeting of the Downtown Development Authority Board of Directors to order at 3:02 p.m. Roll call was conducted, and a quorum was established.

Approval of Minutes

Mr. Naglick asked if there were any additions, deletions, or corrections to the minutes of the May 26, 2021 Finance Committee meeting. Hearing none, the Committee took the following action:

Mr. Hollowell made a motion approving the May 26, 2021 minutes, as written. Ms. Delley supported the motion. All were in favor with no opposition, and the May 26, 2021 minutes were unanimously approved.

PROJECTS

Paradise Valley Business & Entertainment District: Amendment to the Development Agreement for Broadway Lofts

Mr. Shokar advised that on November 30, 2017, the City of Detroit Downtown Development Authority (“DDA”) entered into an Agreement to Purchase and Develop Land (as amended, the “Development Agreement”) with Broadway Detroit Properties, LLC (the “Developer”) for the purchase and development of the properties located at 1326 Broadway and 1332 Broadway (collectively, the “Property”). Originally, the Developer planned develop the Property, together with Developer’s adjacent property, into a 47,000 square foot, five-story mixed-use project, with 36 residential units, at an estimated cost of \$11,000,000.

Due to a fire at the Property in April 2017, and other circumstances, including change in project scope, timeline extensions for the project have previously been approved by the Board. At the time of the most recent extension approved in November, 2020, the Developer also announced a significant increase to the project scope, which now contemplates a 9-story mixed-use project comprised of over 83,000 square feet, 75 residential units and an estimated cost of \$27,000,000 (the “Project”). The onset of the Covid-19 pandemic caused additional Project delays; however, the Project has now received all required approves from both the Planning Department and the Historic District Commission and the Developer is moving forward with full construction drawings and Project financing.

The DDA staff is recommending an extension to the closing date provided in the Development Agreement to December 31, 2021 to provide the Developer with additional time to secure



financing, complete architectural drawings, and satisfactorily complete the requirements to close. Additionally, based on underwriting completed by DDA staff using current construction costs and revenue projections, DDA has identified a gap in funding and recommends the provision of \$800,000 in seller financing for the project in accordance with the proposed terms below shown as **Exhibit A** (the “Proposed Terms”).

The Project’s proposed sources and uses, including seller financing, are as follows:



DDA

DOWNTOWN DEVELOPMENT AUTHORITY

500 Griswold, Suite 2200
Detroit, MI 48226

Broadway Lofts

1322, 1326, 1332 Broadway Ave

	<u>Nov 2018</u>		<u>Jun 2021</u>	
	Original Proposal		DDA Staff Proposal	
Purchase Price	\$800,000		\$800,000	
# of Resi Units	36		75	
Building Height	5		9 Floors	
Retail SqFt	11,219		12,479	
Total SqFt	43,529		83,489	
TDC/PSF	\$279		\$333	
Funding				
Senior Loan	\$8,000,000	66%	\$15,000,000	54%
CRP Grant/Loan	\$1,000,000	8%	\$5,750,000	21%
DDA Financing	\$0	0%	\$800,000	3%
Historic Tax Credits	\$700,000	6%	\$0	0%
Deferred Developer Fee	\$400,000	3%	\$800,000	3%
Cash Equity	\$2,060,010	17%	\$5,422,745	20%
Total Sources	\$12,160,010	100%	\$27,772,745	100%
Total Uses	\$12,160,010		\$27,772,745	
Hard Construction Costs	\$8,811,510	72%	\$22,951,530	83%
Notes:	The original presentation of the project shortly after the RFP. 2-Story addition to the building.		13% construction cost increase Introduces DDA Seller Financing (20 Year Term and Amort, 1.5% interest rate)	
Cash Flow/Returns				
NOI	\$719,576		\$1,384,412	
Senior Loan DS	\$603,942		\$945,144	
CRP/DDA Financing	\$0		\$286,286	
Cash Flow	\$115,634		\$152,982	
DSCR	1.19x		1.12x	
IRR	11.0%		6.7%	
Cash on Cash	6.7%		4.3%	



DDA staff is supportive of the project and based on staff's review, it has been determined that the project would not be viable without the seller financing at the terms indicated on **Exhibit A**. DDA staff requested that the Finance Committee recommend the extension of the closing date under the Development Agreement and the provision of seller financing in accordance with the Proposed Terms to the Board of Directors for approval.

EXHIBIT A

PROJECT FINANCING TERMS

Loan: \$800,000 of seller financing of the purchase price pursuant to a promissory note to be paid by Developer (the "Developer Note"). The Developer Note shall include the following terms and conditions:

Interest: 1.5% annual interest. Interest payments will be calculated annually based on the remaining principal. Interest not paid will accrue into the outstanding principal balance.

Term: 240 months. No prepayment penalties will be applied. Repayment of the loan will be due upon the maturity date of the Developer Note or sale of the property, or upon refinance of the senior mortgage, provided that Developer may refinance the senior loan at an interest rate not to exceed the U.S 10 Year Treasury Rate + 450 basis points, provided that the DDA is furnished with satisfactory evidence that the cash flow post-refinance exceeds a minimum of 1.0x DSCR.

Amortization: 240 months.

Payments: Interest only payments due commencing on the first business day of the month following Closing, and every month until the earlier of the receipt of Certificate of Occupancy and 30 months. Principal and interest payments on a 20-year amortization schedule. All unpaid principal and accrued but unpaid interest shall be due and payable on the maturity date or such other event triggering repayment of the Developer Note, as described by the loan documents.

Reporting: Annual financial statements prepared certified by a certified public accountant in accordance with Generally Accepted Accounting Procedures will be provided to the DDA staff.

Security: Subordinated mortgage on the Property; personal guaranty of development team, and such other documents reasonably and typically required by the DDA staff for such a transaction.

Mr. Naglick asked that the document that was included in the Committee material that showed the before and after comparison on the project be pulled up on the screen for the Committee. He stated that it shows the substantial increase in the size of the project and the ambition of the developer, and with the increase in construction costs it is understandable that there is a need to look for something different in the capital stack, which is our seller financing that is being requested here.



Mr. Naglick asked the other Committee members what their thoughts were, and if they have questions.

Ms. Delley stated that she does not disagree with the request, for the reasons that Mr. Naglick just articulated. It is a good way for DDA to help the developer address the rising construction costs. What she is thinking though is twofold. The appraisal was done first quarter of last year and she wonders what rental rates were at that time and is guessing they are higher today. If they are higher than what the appraiser assumed, that may result in the calculation of a higher NOI, which may assist in providing more cash flow and giving DDA the ability to write in a covenant. Ms. Delley stated that not having seen the appraisal but knowing it is dated, they may be leaving cashflow on the table here. Rents are probably higher today than they were last year.

Mr. Naglick asked Mr. Hollowell if he had thoughts. Mr. Hollowell asked if the developer was present and stated he would like to hear from the developer on their perspective of what is going on with the project.

Mr. Basmajian thanked the committee for taking the time to consider their request and reviewed the project. Mr. Basmajian disagreed with Ms. Delley and stated that rental rates are not higher now than they were. Ms. Delley asked what they are projecting for their rental rates. Mr. Basmajian asked Mr. Hooker to address that question.

Mr. Hooker advised that rental rates will be on average between \$2.30 to \$2.40 and, of course, there will be units that will be 20% AMI as part of the development agreement as well, which would range from \$1.60 to \$1.90 depending on size and square footage.

Ms. Delley responded that those are good rental rates and a good price to underwrite, and there would be no need to get another appraisal. Ms. Delley thanked the developer for his comments.

Mr. Ogden apologized for just connecting to the meeting and stated he may have missed something. He heard Mr. Shokar say 13% increase and asked if that was the accumulative increase from 2020 to 2021 and asked how much of that was expansion of the footprint of the project, and how much was increase in materials. Mr. Basmajian answered that this is just the increase in labor and materials over the last year.

Mr. Ogden asked Mr. Shokar what the collateral is on the project. Mr. Shokar responded that DDA has a full personal guaranty as well as requesting subordinate mortgage on the property. Mr. Shokar deferred to legal counsel and asked if there was any other collateral. Ms. Navin stated that it is just our standard collateral for subordinated mortgages.

Mr. Ogden asked how the developer is projecting absorption rates. Mr. Basmajian stated that they have extended and pushed out their absorption timelines and deferred to Mr. Hooker. Mr. Hooker advised that due to the timing of the delivery, we anticipate close to 50% vacancy in the first year and then 25% in the second year before hitting stabilization.

Ms. Delley asked how confident they are with CRP coming to fruition. Mr. Shokar advised that they have had ongoing discussions with the MEDC as recently as this morning and they are confident that allocation will be awarded to this project, but don't have an LOI at this time and won't have for another week or so. Ms. Delley asked if we knew what the terms will be. Mr.



Shokor stated that he believes they will mirror what has been done with other CRP loans recently-lower interest rate, 20-year term and 20-year amortization.

Mr. Naglick asked if there was a motion.

Mr. Hollowell made a motion to approve the Amendment to the Development Agreement for the Boardway Lofts. Ms. Delley supported the motion. All were in favor with no opposition and the Amendment to the Development Agreement for the Boardway Lofts was unanimously approved.

Paradise Valley Business & Entertainment District: Amendment to the Loan Agreement for 311 E Grand River

Mr. Shokar advised that In April 2017, the City of Detroit Downtown Development Authority (the “DDA”) entered into an Agreement to Purchase and Develop Land (as amended, the “Agreement”) with 311 E Grand River, LLC (the “Developer”) for the redevelopment of the property located 311 Grand River (the “Property”) as a result of a Request for Proposals issued by DDA staff.

Following the execution of the Agreement, the DDA Board of Directors approved various amendments to the Agreement which amended the scope of the project, reduced the purchase price of the Property, extended the date of Closing, and allowed for the provision of DDA financing for the project. Such DDA financing totaled \$2,700,000 (the “Loan”) and included a \$1,500,000 loan for construction and related activities and seller financing of the \$1,200,000 purchase price for the Property. The Developer closed on the Loan and the purchase of the Property on January 31, 2021.

Prior to closing on the Loan, the Developer requested a modification to the approved Loan term requiring repayment of the Loan upon sale or a refinancing of any mortgage debt on the Property, but given the parties’ desire to timely close, Staff and Developer agreed to seek Board approval post-closing. Specifically, given that Developer’s senior loan has a term of five years and will need to be refinanced prior to the 20-year maturity of the Loan, Developer has requested the ability to refinance the senior loan without having to pay off the Loan. Staff and Developer propose permitting such a refinance, provided that (i) the interest rate on any refinanced debt does not exceed the U.S 10 Year Treasury Rate + 450 basis points and (ii) the DDA is furnished with satisfactory evidence that the cash flow post-refinance exceeds a minimum of 1.0x DSCR (the “Proposed Modification”).

DDA staff requested that the Finance Committee recommend the Proposed Modification to the Board of Directors for approval.

Mr. Naglick called for questions/discussion.

Mr. Hollowell asked if there were any members of the development team present to give an update. Mr. Basmajian advised that they closed on the project in early February and are in full swing construction. Everything is on schedule at the moment. Ms. Delley asked if this project is going to be apartments. Mr. Basmajian stated that it is a mixed-use project and the end use of



the building will be close to the original intent of use of the building when it was originally constructed.

Mr. Naglick asked if there were any other questions. Hearing none, he called for a motion.

Ms. Delley made a motion approving the Amendment to the Loan Agreement for 311 E. Grand River, as presented. Mr. Hollowell seconded the motion. All in favor, no opposition noted and the Amendment to the Loan Agreement for 311 E. Grand River was unanimously approved.

ADMINISTRATION

None.

OTHER MATTERS

Mr. Ogden stated that this will not be the only project that we will hear about rising prices and asked Mr. Shokar to make sure he is quantifying what those cumulative costs are for consistency and asked if anyone was tracking this information. Mr. Shokar advised that he doesn't know of a database but through the normal course of business we receive proformas throughout the city for other projects. As he is combing through those other proformas, if he were to see a cost that was not in line with others, he would investigate further.

PUBLIC COMMENT

None.

ADJOURNMENT

With there being no other business to be brought before the Committee, Mr. Ogden made a motion to adjourn the meeting. Mr. Hollowell seconded the motion. Mr. Naglick adjourned the meeting at 3:32 p.m.