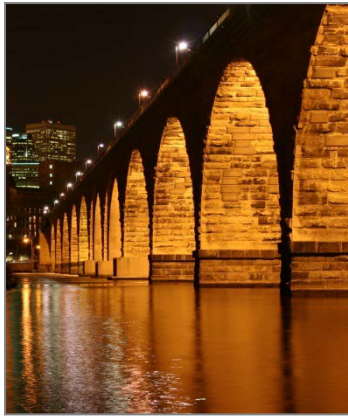


EXHIBIT 4A  
LCRA 6/27/18



## But-For Determination Report

Economic Development Corporation

Kansas City, Missouri

6410 Paseo Boulevard Project

May 9, 2018

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### *Mission Statement*

Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.

## 1. Purpose

The report that follows is pursuant to a determination that the proposed Project would not reasonably be anticipated to be developed without adoption of the requested financial assistance. We have approached this determination based on the proposed Projects' plans regarding redevelopment costs, outcomes, financing sources, and timing, to develop a measure of the Developer's expected return when compared to the amount of risk. If a project is owned and operated as an investment, a measure of return is calculated considering the time value of money, and involves an assumed sale of the property at a price appropriate in the market place. The final determination is based on whether or not a potential return is reasonable without the requested subsidy, within the current marketplace and at the present time.

The Developer (UC-B Properties, LLC) has requested assistance in the form of a LCRA property tax abatement on real property value at a rate of 100% for 10-years, and a sales tax exemption on construction material purchases.

## 2. Executive Summary

The calculated internal rates of return with and without the subsidy request, based on the project costs and operating revenues of the proposed project are shown in the tables below. Determining if a project would occur without subsidy requires the testing of various assumptions which have a material effect on a project's feasibility. We have tested the sensitivity of the return without assistance by varying the cost and the revenue assumptions, each independently and then collectively. The reason for testing sensitivity is to illustrate the magnitude with which project assumptions would have to change in order for the project to be considered feasible without assistance. For the purpose of this analysis we have focused on a year 1 Debt Coverage Ratio (DCR) of 1.25 or greater as our feasibility benchmark. Table A below, details the significant findings of the sensitivity analysis:

**Table A**

Without Assistance Sensitivity Analysis	Change Necessary to be Feasible	Year 1 - DCR without assistance
Decreased Costs	17% Decrease	1.25
Increased Revenue	20% Increase	1.25
Combined Cost and Revenue Changes	10% Decreased Costs 10% Increase Rev	1.27

The table above indicates the magnitude at which project assumptions would have to change for the project to achieve a feasible debt coverage ratio without assistance. Based on typical financing requirements the project would need to realize a DCR of around 1.25 or greater in the first year of debt-service payments in order to achieve private financing. Absent the requested assistance, and without changes of the magnitude outlined above, the Developer would be unlikely to proceed with the project.

Table B, below, illustrates our calculation of the Developer's leveraged rates of return with and without assistance, and the corresponding Year 2 Debt Coverage Ratio:

**Table B**

Pro Forma (Leveraged)	With Full Assistance Request	Without Assistance
Leveraged Return	8.37%	4.71%
Year 2 DCR	1.26	1.04

### 3. The Project

The Developer is proposing the development of an approximately 82-unit age restricted apartment project. The approximately 96,443 square foot building would be located at the Northwest corner of the intersection of Blue Hills Road and an existing apartment building access road, which is south of the intersection of E Meyer Boulevard and the Paseo Boulevard. The development site is located within the existing 6434 Paseo Urban Renewal Area.

The Developer is proposing the construction of an 82-unit apartment building, consisting of 12 studio/efficiency units, 32 one-bedroom units, 20 one-bedroom plus den units, and 18 two-bedroom units. The total building size is approximately 96,443 square feet. Additionally, the Developer will be constructing outdoor patios, a reception area, storage, and a mix of covered and enclosed garage spaces.

The Developer of the project is UC-B Properties, LLC. The Developer anticipates commencing the building development in 2018 with occupancy beginning in 2019.

## 4. Redevelopment Costs

The total cost of the project is detailed in Table C below.

**Table C**

Total Project Costs	Total Cost	% of Total Project Costs
Land Value & Title Insurance	\$402,500	2.90%
Construction Hard Costs & Contingency	11,423,697	82.23%
Architectural	188,491	1.36%
Mechanical, Electric, Plumbing Design	45,695	0.33%
Landscape Architecture	34,271	0.25%
Structural Engineering	42,500	0.31%
Civil Engineering	57,118	0.41%
Geotechnical	6,000	0.04%
Phase I Studies	2,000	0.01%
Special Testing	39,983	0.29%
Construction Management	85,678	0.62%
Accounting	3,000	0.02%
Legal	5,000	0.04%
Marketing/Brokerage	50,000	0.36%
Predevelopment	75,000	0.54%
Permitting/Recording	20,000	0.14%
EDC Fees	10,000	0.07%
Blight Study	7,000	0.05%
EDC Third-Party Financial Analysis	15,000	0.11%
LCRA Fee	7,500	0.05%
Parks and Recreation Fee	30,000	0.22%
UR Application Fee	5,000	0.04%
Insurance	6,000	0.04%
Property Taxes During Construction	6,000	0.04%
Soft Cost Contingency	22,237	0.16%
Appraisal	5,000	0.04%
Legal – Loan	4,500	0.03%
Interest on Construction Loan	527,932	3.80%
Construction Loan Points	55,572	0.40%
Permanent Loan Points	48,625	0.35%
Financing Costs Contingency	19,249	0.14%
Development Fee	642,402	4.62%
<b>Total</b>	<b>\$13,892,951</b>	<b>100%</b>

### Acquisition

In their application the Developer cited the cost of acquiring the site as \$100,000; however, for purposes of their pro forma they have chosen to show an approximate value of the acquired land of \$400,000 along with a title

insurance cost of \$2,500. The land valuation assumption and the title cost, equates to a per unit cost of \$4,909.

For the purpose of our but-for determination analysis, we have modified the project cost budget to reflect the actual cost of acquisition of \$100,000.

## Hard Costs

The Developer provided an estimate for the total cost of hard construction of \$11,090,968 that was based on a per square foot construction cost of \$115. In addition to the hard cost estimate they also included a 3% contingency estimate for hard construction costs that totaled \$332,729; bringing the total hard cost category to a total of \$11,423,697. Included under their hard cost heading were costs associated with the construction of the building, all necessary site improvements, and the construction of the parking facility which includes a mix of surface parking, covered surface parking, and enclosed garage spaces. The hard construction cost category equates to 82.23% of the total project cost.

The Developer's proposed hard construction cost estimate did not include a breakout of individual cost assumptions, it was based on a total average cost of \$115 per square foot. However, they did provide two detailed construction cost estimates provided by contractors that were specific to the development of the site and included detailed breakdowns of the individual line-items related to the construction of the building. One of the detailed cost estimates equated to a per square foot cost of \$112.17 while the other cost estimate equated to a psf cost of \$125.53; the average of these two cost assumptions is \$118.85.

Given that the Developer's cost assumption of \$115 per square foot is slightly below the average cost of the two estimates they received we chose not to modify their pro forma, as their assumption appeared reasonable based on this information.

To provide a comparison, we compared the cost estimates to the *Marshall and Swift Swiftestimator* for estimated construction costs for a new apartment building in the Kansas City metropolitan area. The *Swiftestimator* provided a cost estimate of \$94.69. This amount was inline with the construction cost estimate provided by one of the Developer's contractors prior to the inclusion of the sitework and parking lot costs.

The construction cost category is the largest segment of the development costs, accounting for 82.23% of the total project costs. Consequently, this is a segment where project costs savings could have a positive effect on the rate of return realized by the Developer, while higher than estimated costs would have the converse effect. In the return analysis section of the report, we discuss the sensitivity of the rate of return to changes in the project costs, and the effect on the return without assistance of a decrease in project costs.

**Soft Costs**

For purposes of this review we have grouped the cost categories in Table D below as Soft Costs:

**Table D**

<b>Total Soft Costs</b>	<b>Total Cost</b>	<b>% of Total Project Costs</b>
Architectural	188,491	1.36%
Mechanical, Electric, Plumbing Design	45,695	0.33%
Landscape Architecture	34,271	0.25%
Structural Engineering	42,500	0.31%
Civil Engineering	57,118	0.41%
Geotechnical	6,000	0.04%
Phase I Studies	2,000	0.01%
Special Testing	39,983	0.29%
Construction Management	85,678	0.62%
Accounting	3,000	0.02%
Legal	5,000	0.04%
Marketing/Brokerage	50,000	0.36%
Predevelopment	75,000	0.54%
Permitting/Recording	20,000	0.14%
EDC Fees	10,000	0.07%
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Parks and Recreation Fee	30,000	0.22%
UR Application Fee	5,000	0.04%
Insurance	6,000	0.04%
Property Taxes During Construction	6,000	0.04%
Soft Cost Contingency	22,237	0.16%
Appraisal	5,000	0.04%
Legal – Loan	4,500	0.03%
Interest on Construction Loan	527,932	3.80%
Construction Loan Points	55,572	0.40%
Permanent Loan Points	48,625	0.35%
Financing Costs Contingency	19,249	0.14%
Development Fee	642,402	4.62%
<b>Total</b>	<b>\$2,066,753</b>	<b>14.88%</b>

The total amount of the costs categories grouped under the soft cost heading equates to approximately 14.88% of the total development costs, or approximately \$25,204 per unit, or \$21.43 per square foot.

Reviewing the soft cost categories for largest percentage of the total project costs to smallest, the largest portion of the soft costs is the Development Fee of \$642,402 which was based on 5% of total project costs, prior to the Development Fee. This is a reasonable percentage for this type of fee.



The next most significant line item is the interest cost on the construction loan of \$527,932. This amount was based on the assumption of a 4.75% interest rate on the construction loan, which is a reasonable amount.

The other remaining soft cost greater than 1% of the total project cost is the Architectural design fee of \$188,491 which is 1.36% of the total project cost.

The remaining soft costs line-items, all of which represent 1% or less of total project costs, and in total are \$707,928 which equates to approximately 5.10% of the total project costs.

In the “Return Analysis” section of the report we discuss the sensitivity of the rate of return to changes in the project costs, and the effect on the return of a decrease in project costs.

## 5. Assistance Request

The Developer is requesting assistance in the form of a LCRA Tax Abatement provided over the full available term of 10-years at 100% of the incremental increase in property taxes that would occur without abatement. Additionally, they are seeking a sales tax exemption on construction materials purchased during the development of the project.

The Developer has provided a post-development property tax estimate of \$125,614 without abatement. This tax estimate equates to a post-development market value of \$11,528,697 which they have assumed will increase at 1.0% annually over the term of the abatement. The Developer has assumed a base level of taxes of approximately \$4,000 will continue to be paid during the term of the abatement. Additionally, the Developer is proposing that the annual PILOT payment will increase by 1.0% for inflation.

In Table E below we show our estimate for the net present value of the requested tax abatement assistance based on a 6% interest rate.

**Table E**

<b>Tax Abatement Scenario</b>	<b>Net Present Value (6%)</b>
10-Years @ 100% of increase over base amount	\$932,013
10-Years @ 75% of increase over base amount – alternate scenario	\$722,001

In the return analysis section, we will illustrate the impact on the projected rate of return with and without the requested tax abatement assistance.

Additionally, the Developer is seeking additional assistance in the form of a sales tax exemption on construction materials that is estimated to result in a savings of approximately \$442,097. The project costs cited in the cost section of this report are prior to the application of the sales tax exemption.

Table F provides the anticipated sources that will be utilized to fund the redevelopment project.

**Table F**

<b>Sources:</b>	
Permanent Loan - 70%	\$9,725,065
Owner Equity – 30%	\$4,167,885
<b>Total Sources</b>	<b>\$13,892,951</b>

## 6. Return Analysis

Utilizing the operating pro forma prepared by the Developer we evaluated the need for assistance for the proposed development by comparing the potential return with and without assistance. The Developer provided a 10-year operating pro forma for the development based on a one-year build-out and one-year lease up period, and operating revenue and expense assumptions. Utilizing the information provided by the Developer's pro forma we calculated both an unleveraged and leveraged internal rate of return (IRR) calculation after the 10-years of the pro forma. We utilized this IRR analysis to illustrate the potential return with and without the requested abatement assistance. The return realized by the Developer is a result of the assumptions used in the creation of the operating pro forma, therefore a number of steps must be performed to analyze the reasonableness of the assumptions used.

The first step in analyzing the return to the Developer is to determine if the costs presented are reasonable. We have discussed a portion of the costs above and have commented on the mechanics whereby cost savings on the private side could occur. If cost savings for the Developer's share occur absent any other changes, the Developer would realize a greater return than projected.

As noted in the land acquisition portion of our cost review, we have adjusted the rate of return analysis to be based on the Developer's actual cost of acquiring the property of \$100,000 and not the estimated value of the land they have assumed of \$400,000.

The second step in calculating the return to the Developer is to determine if the operating revenues and expenses of the proposed development are reasonable.

- The Developer has projected average lease rates for the studio/efficiency apartments of \$1.85 per square foot, \$1.45 psf for the one-bedroom apartments, \$1.39 for the one-bedroom plus den apartments, and \$1.42 per square foot for the two-bedroom apartments, with annual revenue growth of 2%.
- The psf rent assumptions above equate to per month rates of \$900-\$950 for the studio/efficiency units, \$1,100 for the one-bedroom units, \$1,275 for the one-bedroom plus den units, and \$1,400 for the two-bedroom units.
- The Developer has projected annual operating expenses (net of taxes) which are equivalent to approximately 26% of revenues.
- The Developer has assumed operating expenses (other than property taxes) will increase at a rate of 2% annually.
- The Developer is not assuming a per-unit reserve expense.

We reviewed third-party market information to evaluate the projected lease rate, vacancy and inflations assumptions prepared by the Developer. The market

information indicated average one-bedroom apartment asking rents of \$1,100 for Urban Class A and \$730 for Urban Class B. Based on this information the Developer's operating assumptions outlined above appear reasonable.

The calculation of an internal rate of return requires the assumption of a hypothetical sale of the asset in the final year of the operating pro forma. The inclusion of this hypothetical sale is used purely for purposes of evaluating the return on the Developer's investment. The determination of the potential market value of the project, through a hypothetical sale, is necessary as it allows for the inclusion of the value of the asset into the rate of return calculation. The calculation of an IRR without the hypothetical sale would result in an understated return, as the return would not be taking into account the value of the real estate asset. The use of a hypothetical sale assumption is not indicative of the Developer's intention to sell the development in the final year.

The third step in analyzing the return to the Developer is to determine if the assumptions for the hypothetical sale of the asset are reasonable. A critical assumption when valuing the asset at the time of the hypothetical sale is the capitalization rate. The available net operating income divided by the capitalization rate results in the assumed fair market value of the asset. The Developer used a capitalization rate of 7.0%, and a 4% cost of sale, to calculate the hypothetical sale value. In reviewing historical cap rate trends for multi-family developments, we feel 7.0% is consistent with historical trends.

An unleveraged IRR calculation is used in order to compare the potential return to the Developer based on the *Price Waterhouse Cooper (PWC)/Korpacz Real Estate Investor Survey, First Quarter 2018*, which provides a market comparison on which project feasibility can be judged.

Table G below, shows the Developer's base pro forma rate of return without assistance and the return with varying levels of assistance.

**Table G**

Developer Pro Forma	Unleveraged IRR
Without assistance	4.71%
With only sales tax exemption	5.15%
With sales tax exemption and tax abatement 10-years @ 100% (Developer Request)	6.14%
With sales tax exemption and tax abatement 10-years @ 75% (Alternate Proposal)	5.91%

To evaluate the rate of return a project of this nature would require to be considered "feasible" we consulted the *Korpacz/Price Waterhouse Cooper Real Estate Investor Survey* prepared for the first quarter of 2018. This survey

provides a resource for comparing the Developer's rate of return to a market benchmark to help determine feasibility. According to the developers surveyed, the typical unleveraged market return necessary for them to pursue a project of this nature falls in a range from 5.25% to 10.00%; with an average return of 7.23%.

In order to help answer the question "is the development likely to occur without public assistance" we also analyzed the project on a leveraged basis to both illustrate the leveraged IRR as well as the Year 1 Debt Coverage Ratio (DCR) and the average DCR realized by the Developer over the 10-year period of the project. The value of reviewing the project on a leveraged basis is that it helps to identify the factor(s) limiting the feasibility of the project without assistance in a way that is not always illustrated by the unleveraged analysis. Table H below, shows the Developer's leveraged rate of return without assistance, with the requested tax abatement terms of 10-years at 100% and the alternative scenarios, along with the Year 1 DCR and the average DCR over the years 1-10.

**Table H**

Developer Pro Forma	Leveraged IRR	DCR Year 1	Average DCR Years 1-10
Without assistance	4.28%	1.04	1.18
With only sales tax exemption	5.54%	1.07	1.22
With sales tax exemption and tax abatement 10-years @ 100% (Developer Request)	8.37%	1.26	1.41
With sales tax exemption and tax abatement 10-years @ 75% (Alternate Proposal)	7.73%	1.22	1.37

It should be noted for this analysis that the Developer is anticipating an equity contribution of approximately 30%. This equity contribution is slightly higher than normal, which has a corresponding impact of lowering the leveraged returns from what may normally be realized. It also increases the DCR as a lower amount of financing is being utilized resulting in a lower annual debt service payment in comparison to a project with a lower equity percentage.

For the purpose of this analysis, we have chosen to use the Year 1 DCR as a measure of project feasibility, and as a means for illustrating the potential need for financial assistance. In order for a project to secure private financing, it needs to demonstrate a sufficient level of revenue is available to pay debt-service. Typically, lenders will look for a coverage ratio around 1.20 to 1.25 as a baseline for providing financing.

Based on our review of the operating pro forma, it appears that without assistance the project will be capable of supporting a debt-coverage ratio of only 1.04 in year 1, and an average of only 1.18 over years 1-10. This DCR would

fall below the threshold necessary to achieve private financing. In order to increase the DCR to a level acceptable to secure private financing, the Developer would have to increase their equity contribution into the project which would lower their rate of return. Given that the rate of return without assistance is already below the typical market range this is unlikely to occur.

In order to understand the sensitivity of the project to changes in assumptions, we have prepared a sensitivity analysis to illustrate the rate at which assumptions would have to change for the project to achieve a feasible year 1 DCR of greater than 1.25. To understand the impact of the project cost assumptions, we have performed a cost sensitivity analysis to determine the rate at which costs would have to be reduced for the project to be feasible without assistance. Table I illustrates the development would need to realize a 17% reduction in project costs to achieve a DCR of 1.25 without assistance.

**Table I**

Project Costs Sensitivity	Reduction in Project Costs	Year 1 DCR without assistance
	17%	1.25

To understand the impact of increased operating income, we have performed a sensitivity analysis to determine the rate at which operating income would have to be increased for the project to be feasible without assistance. Table J illustrates the development would need to realize a 20% increase in operating income in order to realize a DCR of 1.25.

**Table J**

Operating Income Sensitivity	Increase in Operating Income	Year 1 DCR without assistance
	20%	1.25

As a final step in the sensitivity analysis, and to understand the impact of a combined change in project costs and operating income, we have performed a sensitivity analysis to determine the rate at which these areas would have to change for the project to realize achieve a feasible DCR. Table K illustrates the development would need to realize both an 10% decrease in project costs and a 10% increase in operating income for the project to realize a DCR of greater than 1.25.

**Table K**

Project Cost & Income Sensitivity	Reduction in Project Costs	Increase in Operating Income	Year 1 DCR without assistance
	10%	10%	1.27

The three tables above (Tables I, J and K) indicate the magnitude at which project assumptions would have to change for the project to have a feasible debt coverage ratio which we believe lies at 1.20 - 1.25 or greater. Absent changes of the magnitude outlined above, the project would not have a sufficient enough return to draw market investment. Only by assuming either increases in project revenues, decreases in project costs, or a combined change of the two does the DCR increase to a feasible level without public assistance.

## 7. "But For" Conclusion

The Developer will bear all the risk until project completion and permanent financing is in place, and continued operating risk thereafter. This level of risk typically demands a positive return with a range between 5.25% and 10.00% based on the *Korpacz Survey*, with an average return of 7.23%. The unleveraged rate of return with assistance is 6.14% and without is 4.71%. The leveraged rate of return with assistance is 8.37% and without is 4.28%. Additionally, the year 1 DCR without assistance is 1.04, while it is 1.26 with the requested assistance. Due to the high level of equity investment in the project, the gap between the leveraged and unleveraged scenarios is narrowed, however the leveraged analysis does indicate the broader impact on the rate of return of the varying levels of assistance.

Based on their assumptions for project costs and operating revenues, the developments absent assistance are unlikely to be undertaken due to inadequate return and debt-coverage. Therefore we conclude the proposed project would not occur on this site at this time without a public subsidy.