

## Memorandum

**To:** Agency Directors

**CC:** Dan Moye, LCRA Executive Director

**From:** Bob Long, EDC

**Date:** 3/11/2021

**Re:** LCRA Financial Analysis Procedure, Multi-family Affordably Priced Housing – The Cleveland Duplexes

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1. MHDC Form 2013 and Conditional Reservation used for submission of development and operating costs.
2. Staff does reasonableness review, noting any areas that are outside MHDC Cost Standards (attached).
3. Compare operating pro forma with and without tax abatement.
4. Assuming costs are within range, LCRA policy is that tax abatement will be granted if debt coverage ratio is less than 1.25 without tax abatement. This proposed project is located within the 22<sup>nd</sup>/23<sup>rd</sup> Street Connector PIEA.
5. If developer includes a deferred developer fee as equity to be paid by cash flow, initial cash on cash return should be no greater than 10%.
6. This policy is applicable to properties in which rents do not exceed MHDC guidelines for LIHTCs, provided the developer agrees to a third-party property manager.

## Residential (Multi-Family) Development Cost Standards

<u>Item</u>	<u>Standard</u>
<b>Development:</b>	
Acquisition (building)	\$22.5K to \$27.5K per unit
Hard (construction) costs – rehab	\$139-\$147 of leasable sq. ft. (1)
Hard (construction) costs – new	\$122 per leasable sq. ft.
Soft (design, dev fees, legal, etc.)	\$35K to \$50K per unit
Architect Fees (design & supply)	5%-8% of construction cost
Builder's Profit	6% of construction budget
Builder's Overhead	2% of construction budget
General Requirements	6% of construction budget
Developer Fee	8%-15% of total replacement costs (2)

(1) Assume 75%-80% of gross

(2) 8% of first \$2,000,000 of acquisition, 6% of any additional acquisition costs, 15% of first \$4,000,000 of non-acquisition replacement costs and 10% of any remaining.

<b>Operating:</b>	
Income increase P/A	3% market rate; 2% affordable
Expense increase P/A	3% all
Vacancy at stabilized rent	7% for family, 5% for 55+
Property tax PUPA	\$500
Insurance PUPA	\$200
Replacement reserve PUPA	\$300
Management fee	\$1,500 p/m or 6% of rents collected (3)
Operations/Maintenance PUPA	\$3,100
Acceptable DCR	1.25 to 2 (4)

(3) whichever is greater

(4) Minimum standards per MHDC Developer Review 2017

<b>Other – Rental Limits:</b>	
MHDC published rents by unit size per 60% median income guidelines	

## Budget Analysis

The Cleveland duplexes – 40 buildings w/80 units, 89,154 sq. ft. net leasable space, 89,154 sq. ft. gross

### Development:

	<u>Actual</u>	<u>Standard</u>	<u>Evaluation</u>
Acquisition	\$3,964,509	\$20-25K per unit	\$49,556/unit
Hard costs	\$5,555,668	\$139-147 psf	\$62.32 psf
Soft costs	\$1,245,007	\$35-50K per unit	\$15,563/unit
Architect fee	\$190,000	5-8% construction cost	3.4%
Builder's profit	\$259,611	8% construction cost	4.7%
Builder's overhead	\$103,844	2% construction cost	1.9%
General requirements	\$293,899	6% construction cost	5.3%
Developer fee	\$856,345	8-15% replacement cost	12.6%

### Operating per annum

Management fee	\$39,360	>\$1500pm or 6% rents	=5.1% rents)
Ops & Maintenance	\$166,850	\$3,100 PUPA	\$2,086 PUPA
RE taxes (abated)	\$20,000	\$500 PUPA	\$250
Insurance	\$40,000	\$200 PUPA	\$500
Replacement reserves	\$24,000	\$300 PUPA	\$300

### Other operating costs:

Utilities	\$163,000	(Owner pays common area electric, water/sewer, trash)
Administration	\$125,234	

**Debt Coverage Ratio:** With Assistance – 1.55 in Yr. One and falling to 1.05 in Yr. 15

1.25 Standard