

# Building 9 Workforce Housing Feasibility Study

Prepared for the  
City of Seattle Office of Housing  
*by Lorig Associates*

November 19, 2008



# Table of Contents

Executive Summary... Page 3

Feasibility Study... Page 7

Conceptual Floor Plan ... Page 15

Construction Cost Estimate... Page 17

Demolition & Environmental Hazard Abatement Cost Estimate... Page 25

Roof Reconstruction Cost Estimate... Page 27

Electrical System Replacement Cost Estimate... Page 31

Proformas... Page 35

# Executive Summary



## **INTRODUCTION**

This report is a summary of the findings and recommendations by Lorig Associates of the feasibility of developing workforce housing within the historic Building 9. This is one building within the complex of buildings associated with the former Naval Station Puget Sound - Sand Point within Magnuson Park. Building 9, which originally served as barracks, is owned by the University of Washington (UW) and has been vacant for the past decade. It came to the possession of the University through the federal property surplus process as part of the transfer of buildings formerly associated with Sand Point Naval Air Station. Specifically, Lorig Associates was asked by the City of Seattle's Office of Housing to study the construction and financial feasibility of creating workforce housing in Building 9.

## **KEY FINDINGS**

Based on prior studies of this building, coupled with Lorig's experience with rehabilitation of historic buildings and a study of the current market conditions, Lorig has concluded it is feasible to transform Building 9 into workforce housing both from a financial and constructability perspective. The basis for this conclusion, along with the key elements required to make the project work, are summarized in the following paragraphs. The full report that follows provides in-depth background of the project as well as a more thorough discussion of the constraints, design and the financial and legal ownership structure recommended.

## **PROJECT DESCRIPTION**

Lorig has concluded it is feasible to construct approximately 120 one and two bedroom apartments on floors one and two of Building 9. These apartments could be rented as workforce housing, affordable to people with incomes at 80 to 100 percent of the area median income (AMI). This equates to yearly household incomes ranging from \$44,600 to \$67,480. It is assumed that the primary, if not exclusive, targets for potential tenants would be faculty and staff of the UW and affiliated institutions. This assumption is based on the expressed interest by the UW and its partners to provide housing support to faculty and staff with income levels between 80 and 110 percent of AMI as part of the UW's mission to attract and retain an exceptional workforce. The UW and its affiliates have been challenged with the high cost of housing in their central Seattle location when recruiting faculty and staff. It is also assumed that using the building

for educationally-related housing rather than offices would be acceptable to the Federal Government as a modification to the terms of use when the building was transferred to the UW, although explicit permission would still need to be obtained.

The building retains its historical character under this redevelopment. In order to accommodate housing, the center section of the building would be partially removed. Its exterior walls and the easternmost office space would remain, with new apartments to be built inside the west wall. The rest of the interior would become an open air courtyard. Outside of these changes, the building would retain its historic appearance.

The building also has a third floor. The findings of this report assumed that the third floor would not be used for apartment units since to do so would potentially change the historical character of the building and therefore require permission from the State Historic Preservation Office (SHPO). Lorig believes, however, that a case could be made to the SHPO to allow for use of the third floor, and if successful add about 43 units to the project.

Building 9 has an extensive basement. The economic feasibility of the project requires finding an income generating use for this space and the recommended use is a passive storage facility. It is estimated that public storage, operated by a for-profit storage company, could generate \$250,000 – 350,000 a year in income providing a significant subsidy to the housing.

## **OWNERSHIP**

The UW currently owns the building. It was transferred to the UW from the Federal Government through the Department of Education to be used for educational purposes. For the purposes of this study, it is assumed that the UW would lease the property to an entity that takes responsibility for its rehabilitation, operation and financing. The entity needs to be taxable in order to use the federal Historic Rehabilitation Tax Credits (HRTC) as a part of the project financing. At the end of the lease, which might be for 30 to 60 years, the property would be returned to the UW.

## **FINANCING APPROACH**

Lorig considered several financing mechanisms and concluded that the appropriate financing model for this project would use conventional financing, combining

taxable debt with equity investment attracted in part through the tax credits. This model assumes the taxable development entity would finance the maximum debt supportable on the housing and storage income from the building. The balance of the development cost would be provided by equity from:

- An investor receiving the tax benefit of the HRTC
- A community-motivated investor able to accept less-than-market return on equity
- A private equity investor

As an example, in return for about a five million dollar investment, the HRTC investor receives roughly six million dollars in federal tax credits as well as some cash flow from the project. The community investor has several levels of participation to choose from to best match their social and economic goals. The levels range from a two million dollar grant to a full ownership position with lower than market returns. The levels are detailed in the following section on Project Costs. The involvement of a private equity investor depends on the investment potential from a community investor. The project under this structure would also benefit from a 10 year real estate tax exemption from the City and State under the special valuation program for rehabilitation of eligible historic structures.

## PROJECT COSTS

Estimating the cost for rehabilitating an existing building, especially a historic building, presents several challenges. Lorig's scope of work did not include a comprehensive construction planning exercise, so Lorig used a combination of its past analysis work inflated for today's construction costs, supplemented with an in-depth look at several major cost components for the rehabilitation. In August 2004, Marpac Construction Company developed a full construction estimate for Lorig for the redevelopment of Building 9 as student housing. Most of this analysis remains relevant, when inflated to reflect today's pricing. Certain components of the project cost however demanded a more in-depth look, specifically demolition and the related environmental hazard abatement, roof reconstruction, electrical systems and the overall exterior brick repair. The 2004 construction estimate, adjusted for inflation, supplemented by the current detailed assessments on major cost components resulted in a construction estimate of \$155 per square foot. Due to the estimating uncertainties of a rehabilitation project and the absence of comprehensive construction plans incorporating a full seismic analysis, it is important to note that the

cost per square foot could range up to \$180 per square foot. Until a more detailed analysis of the construction cost is performed, \$155 per square foot was the cost estimate used in the proformas.

Lorig built three proformas using varying community investor contributions and subsequently different private equity assumptions. The building size, unit mix, development costs and rental rates remained the same in all three scenarios. In each scenario, the rental rates for half of the units were set at 80 percent AMI and the other half of the units were set at 100 percent AMI. Additionally all three proformas use a 10 year operating timeline as the basis for calculating the return on equity. The variations between the proformas are the sources of funding and how they are treated.

The specific scenarios are:

### Scenario I

- \$2,000,000 grant from community investor
- Equity requirement decreased by the amount of the grant
- \$6,500,000 equity investment with return of 14.1 percent

### Scenario II

- \$5,000,000 no interest loan from community investor repaid over 30 years
- \$3,500,000 equity investment with return of 24 percent
- High returns would allow project to lower community investment loan, increase development costs or lower rental rates

### Scenario III

- \$8,500,000 investment from community investor
- No private equity required
- Community investor receives a return of 10.4 percent
- Ideal for community investor with social goals such as workforce housing in addition to their economic goals

Note that increasing the construction cost to \$180 per square foot significantly impacts the financial analysis. The project still provides a financial return from workforce level rents, but in order to maintain an equity investor's return of 14.1 percent, all the rental rates would need to increase to 102 percent of AMI.

## **AUTHORITIES NEEDED TO PROCEED**

The quitclaim deed between the Federal Government and the UW signed in August 1999 places a host of conditions and covenants on the future use of Building 9. Federal approval must be obtained for providing workforce housing, public storage and for the lease of the building from the UW to a taxable entity. Workforce housing was not described in the UW's original application to the Department of the Navy; it must be approved as an appropriate use now. Lorig believes that this newly proposed use would likely be approved since workforce housing for the UW or its affiliates' faculty and staff is a logical extension of their educational mission.

Another prerequisite to move forward with the project will be to receive clearance for the proposed rehabilitation plan from the SHPO, specifically addressing any alterations to the building. There are two bases on which the SHPO must review the planned redevelopment:

- When the property transferred from the Federal Government to the UW, it was subject to Section 106 review, requiring that federal actions consider the impact on historically significant structures. As a condition of the transfer, a covenant in the quitclaim deed states permission must be obtained from the SHPO for any work on the building that would affect its historical integrity.
- In order to be eligible for HRTCs, any rehabilitation to the building must comply with the Secretary of Interior's Standards for Historic Rehabilitation (Secretary's Standards), which are administered by the SHPO within the State of Washington. Consequently, the redevelopment plan must be completed in consultation with the SHPO.

Lorig believes only one change to the historic fabric of the building will be needed: adaptation of the central hall between buildings in order to accommodate apartment use. Lorig believes that since the overall integrity of the building will remain, permission from the SHPO to make this change should be obtainable.

## **SUMMARY**

While challenges exist, Lorig has concluded that there is an economically and legally feasible means to redevelop Building 9 for workforce housing for faculty and staff of the UW and its affiliates. Lorig believes that the obstacles are reasonably surmountable with a clearly articulated plan for the project. A desire exists within the UW, City Hall and the community to see

something occur at Building 9 and the market evidence shows a demand for workforce housing in the area. The key steps in furthering the redevelopment will be to:

- Complete investigations into the building condition so as to be able to refine designs and cost estimates for the rehabilitation
- Involve the SHPO in approval of the building changes required
- Begin the dialogue with the Federal Government in authorization of the changes to the plan for use of the building by the UW

Lorig is excited about the prospects for Building 9 to be returned to use in a way that benefits the community and hopes to continue working with all parties to make this project a reality.

# Feasibility Study



## SCOPE OF WORK

The City of Seattle Office of Housing engaged Lorig Associates to conduct an assessment of the potential for creating workforce housing in the former barracks known as Building 9, set within the complex of buildings of the historic Naval Station Puget Sound - Sand Point, now incorporated within Magnuson Park. Specifically, Lorig Associates was asked by the Office of Housing to study the construction issues and financial feasibility of creating workforce housing in Building 9. Workforce housing is defined by the City as being that affordable to households with incomes between 80 percent and 110 percent of Area Median Income (AMI). Building 9 is owned by the University of Washington (UW). The building came to the possession of the University through the federal property surplus process as part of the transfer of buildings formerly associated with the Naval Station.

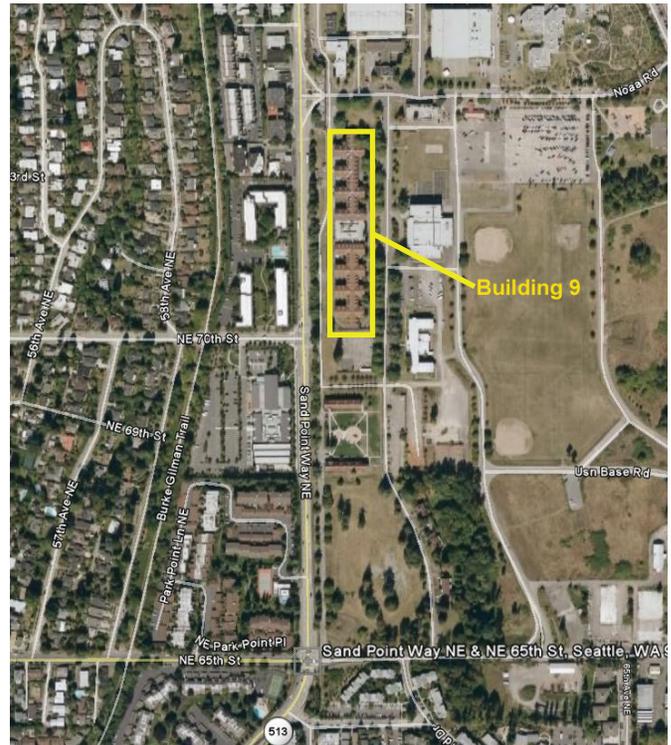
The engagement required Lorig to review historic records, understand structural code requirements, research building, historic and land use code regulations and review ownership restrictions and agreements. Within an understanding of these parameters, Lorig developed conceptual floor plans for marketable apartments to define the feasible unit size and mix of apartment types that could be incorporated in the building. The square footage and unit quantities derived from the conceptual floor plans created the basis for the financial model.

The engagement also required Lorig to consider alternatives for financing the redevelopment of Building 9, including conventional sources of multifamily financing, Section 63-20 bond financing, federal Historic Rehabilitation Tax Credits (HRTC) and any other type of financing appropriate to the project. The findings from the research, design and financial models was to be presented in a report to the Office of Housing and the UW. This report presents those findings and recommendations. The attachments to the report serve as further background and detail behind the work effort.

## SITE HISTORY

The Naval Station Puget Sound - Sand Point (Station) occupied the area of northeast Seattle that is now referred to as Sand Point. In the mid-1990s, the Station closed and the federally-owned land was transferred to different public ownership. Up until the Station closure, the US Navy owned the entire peninsula, but as the Navy

moved out, ownership of the land split. Four entities currently own portions of Sand Point: National Oceanic and Atmospheric Administration, the Department of the Interior, the UW and the City of Seattle. Building 9 is owned by the UW through a quitclaim deed.



A map of Building 9 and its surroundings.

The buildings and landscapes of the former Station remain largely intact and the Sand Point Historic District was created to recognize this surviving evidence of World War II military operations in Seattle and the region. Bounded on the north by Pontiac Bay along Lake Washington, on the east by the property of NOAA and Magnuson Park, on the south by NE 65th Street and on the west by Sand Point Way NE, the historic district contains nearly 30 buildings of which 20 are contributing historic resources. Building 9 is one of the 20 contributing historic buildings.

## BUILDING HISTORY

Building 9 sits on the west side of Magnuson Park paralleling Sand Point Way NE, just south of the NE 74th Street historical entrance to the Station. Built in stages between 1929 and 1938, Building 9 is 800 feet in length, north to south, and is 43 feet tall. The predominantly brick building is symmetrical in form, north to south, with recessed courtyards on the east side and recessed open space on the west side. The building grew from two originally separate but nearly

identical dormitory buildings, each three stories that create the two wings. A one-story wood frame building, the central dining facility, was built connecting the two wings. The northern wing of the building was the first built and is a load-bearing brick structure. The southern wing was built subsequently with the same basic design, however it is a frame structure with a brick veneer exterior. The one story central building was built last as a mess hall, filling the space between the two dormitory buildings and effectively combining them into a single functioning building.

Building 9 contains just over 223,000 square feet (sf) of interior space and served as barracks for the Transient Personnel Unit. This square footage includes two residential floors plus a partially habitable attic level and the basement. In addition to barracks, Building 9 also housed the naval chapel, general mess hall, a courtroom, offices and an Officer's Club.

Building 9 was designed in the Colonial Revival style often employed for institutional buildings in the early 20th century. The style is visible in certain architectural characteristics of the building that are considered historically defining features. Dormers with their arched windows accentuate the gabled roof, adding detail and allowing light to penetrate into the interior spaces. The neo-classical detailing around windows and doors,

painted white against the red brick exterior, reflects the Colonial Revival style popular at the time.

Exterior features of special significance include doorways and eaves. An ornate concrete door frame accentuates the main entrance. There are three doorways with double shop doors, above which a fan light topped by a brick arch, cast keystone and concrete end posts frame the entrances. Black metal lanterns flank the doors. The eaves are accentuated with a regular pattern of decorative corbels. Although some historic buildings are identified within the Sand Point Historic Properties Reuse and Protection Plan as having contributing interior features, Building 9 has none listed.

In addition to buildings, the Sand Point Historic Properties Reuse and Protection Plan designates landscape features of significance. Building 9 sits adjacent to two landscape features identified as worthy of preservation. Both are view corridors: the first is the east to west view along NE 74th Street, the main entrance to Sand Point/Magnuson Park; the second is the north to south view down 62nd Avenue NE, framed by mature Deodar cedars, which are also noted historic landscape features.

## CONDITIONS OF QUITCLAIM DEED

The quitclaim deed signed in August 1999 lays out the agreement by which the land and building were transferred from the Department of the Navy to the UW, including the conditions and covenants related to it. The conditions of the deed survive for 30 years from the date the deed was signed and are as follows:

- Building 9 shall be solely and continuously used for educational purposes as described in the UW's application. This was anticipated to involve providing a temporary home to the UW classrooms and offices displaced by on-campus construction, being used for educational programs of specific not-for-profit organizations, or being used for other educational purposes.
- Advance authorization from the US Secretary of Education is required to sell, resell, rent, mortgage, encumber or otherwise transfer interest in Building 9.
- The UW has to file an operation and maintenance report to the US Secretary of Education every even-numbered year for 30 years.
- The UW must remain a tax-supported institution or a 501(c)(3) non-profit.



Courtesy of Loirig Associates

An arched doorway with a fan light and cast keystone reflect the Colonial Revival style of the building.

- The UW will comply with the acts and regulations preventing discrimination based on race, sex or handicap.

If the UW fails to abide by these conditions during the 30 year time frame, the United States government can repossess the property.

Thirty covenants govern the property transfer. Of those thirty, a handful bear mentioning in this report due to their potential impact on future uses. These are:

- The United States government shall be notified immediately if additional remedial action against environmental hazards in the building is necessary to protect human health and the environment and if the contamination occurred prior to the property conveyance.
- The UW will bear responsibility to eliminate the lead-based paint in the building, which the deed admits is present, and to meet all the lead-based paint laws and regulations.
- The historic district covenant requires the UW to perform steps when redeveloping Building 9.
- Written permission must be obtained from the State Historic Preservation Officer (SHPO) for any construction, alteration, remodeling, demolition, or any other action which would materially affect the integrity, appearance or historic value of the resources. This includes making changes to the landscape.
- A SHPO approved Historic Properties Re-Use and Protection Plan is deemed to be written permission. The planned changes should, to the maximum extent possible, conform to the Standards and Guidelines for Historic Preservation Projects and follow stipulated historic review procedures.
- To the maximum extent possible, the proposed changes shall retain and reuse the historic structure.

## PERMITTED USES

Under the Seattle Land Use Code, Building 9 is zoned Low-rise 3 (L-3) and lies within Subarea B of the Sand Point Overlay District. Uses permitted outright within structures existing as of July 18, 1997, in the portions of Subarea B zoned L3 are as follows:

- Single-family dwelling units
- Multifamily structures
- Congregate residences
- Adult family homes
- Nursing homes
- Assisted living facilities
- Institutions meeting all development standards except hospitals
- Major institution and major institution uses within major institution overlay districts
- Public facilities meeting all development standards
- Parks and open space including customary buildings and activities
- Food processing for human consumption
- Horticulture
- Institutions, except hospitals
- Lecture/meeting halls
- Medical service uses
- Offices
- Restaurants without cocktail lounges

Although the Sand Point Overlay District does limit the number of dwelling units that can be established, it does state, “Residential uses provided by the University of Washington shall not count” towards the 200 dwelling unit limit. Parking requirements for the overlay are lenient. They state, “Required parking may be provided anywhere within the overlay district, including public rights-of-way.”

## OPTIMAL DESIGN AND USE

Lorig has concluded that Building 9 is well suited for workforce housing both in constructability and financial terms. Lorig recognizes the City’s desire to provide workforce housing at rental rates affordable to people with incomes between 80 percent and 110 percent of AMI. To better understand 80, 100 and 110 percent AMI, a chart is provided below outlining what household incomes would be for one and two bedroom apartments:

| Bedrooms | AMI | Household Income |
|----------|-----|------------------|
| 1        | 80  | \$44,600         |
| 2        | 80  | \$52,824         |



Courtesy of Lorig Associates

Deodar cedars line 62nd Avenue NE creating a boulevard-like feel in front of Building 9.

| Bedrooms | AMI | Household Income |
|----------|-----|------------------|
| 1        | 100 | \$56,800         |
| 2        | 100 | \$67,480         |
| 1        | 110 | \$62,900         |
| 2        | 110 | \$80,608         |

If the UW administration desires it, this workforce housing would be targeted to faculty and staff of the UW, with the assumption that workforce housing so designated would be an appropriate use and meet the broader intent of the conditions and covenants for the building. It is further concluded that limiting the apartments to workforce housing is possible and financially feasible if there is some community investment to supplement the market-driven financing for the project.

Lorig reached these conclusions after studying the building's physical layout, understanding the housing needs of the City and the UW, developing partial schematic designs, assessing construction approaches and costs and running the financial models necessary to finance the redevelopment of the building. The attachments to this report include some of the work products produced in reaching these conclusions.

The redesigned building would house a combination of one and two bedroom apartments, amenity areas and shared outdoor terraces. The schematic apartment layout includes a range of floor plans with one or two bedrooms and sometimes additional dens, ranging from 580sf to 1,112sf.

The ideal first floor design would include apartments in the north and south wings. The center section of the building would form the main entrance while also incorporating some apartments and the amenity spaces for the complex. The possibility exists for an outdoor courtyard in the center of the building. The apartments would run along the west side of the building to take advantage of the large existing windows on that facade. These windows look west and provide ample light into studio floor plans of approximately 600 square feet. Nine apartments of this size would fit along the existing west wall. Amenity space might include an exercise room, a TV/party room and a meeting room. Creating an outdoor courtyard within this connector section allows for a private, secure outdoor area for the building's residents. This would be an ideal space for a public barbeque and outdoor seating. This will also provide more natural light opportunities for the apartments on

the west side of the building that would be accessed off of the central courtyard.



Courtesy of Lorig Associates

The center section has a different look from the two wings.

In design, the second floor lays out similarly to the first floor. Consequently, the same apartment layout was assumed to repeat itself on the second floor. The main difference in the floor plans naturally revolves around the central section of the building. While the north and south wings are linked by this central building at the first floor, there is no circulation possible between the north and south wings on the second or third floors.

The sloping gabled room and dormers of the third floor create a very different floor layout from the lower floors. The greatest obstacle to creating apartments with the existing roofline is the limited usable space. With the existing sloping roof, a large portion of each wing is unusable because the floor-to-ceiling height is less than five feet. The limited usable area that exceeds five feet in height results in apartments that are either too narrow with too little window exposure to create functional and practical rooms or the apartments are so big that the rents supportable in the market do not justify the cost of development. In order to properly use the third floor, additional dormers have to be constructed to create habitable and rentable space. This change to the building would require approval from the SHPO. Lorig strongly recommends at least having the conversation with the SHPO to see what their position would be on this issue. If the additional dormers are allowed, the third floor would house a mix of apartments. For purposes of illustration only, a conceptual floor plan of the third floor is included in this report.

If adding dormers is not permissible or does not want to be pursued, then apartments are not recommended on the third floor. Further study of the floor layout may prove that a small amount of apartments could be put

on the third floor or two-story lofts could be built that would utilize at least a portion of the third floor. As shown in the Financing Analysis later in this report, the project is still financially feasible without apartments on the third floor.



Courtesy of Northwest Roofing Consultants

The addition of more dormers to the roof would allow more light into the third floor, but this idea may not be pursued.

The last floor to address in Building 9 is the basement. An income generating use is necessary to make the project work financially so several options were studied. Ultimately passive storage was the recommended option. Lorig assumes that passive public storage in the basement would be operated by a private company. Lorig had a conversation with a representative from a private public storage company in the University Village. He indicated he receives approximately \$16 per square foot for public storage. In discussing the potential for public storage in Building 9, it was thought that only six dollars per square foot would be feasible as this location is not as desirable as the University Village location. Assuming that not all of the basement could be used for storage, it was estimated that 59,440 square feet could be used for storage equating to \$300,000 per year. Without more vetting of the construction costs associated with building the storage and further investigation into the level of market demand, \$300,000 per year is all that Lorig is comfortable assuming in the proforma at this time.

This income provides a significant subsidy to the above housing. There is no assumption of payment from the University of Washington to subsidize these storage units. The storage units would be available to rent to Building 9 tenants and the public at large. The cost to convert the space to storage is low. However it is not clear that such a use would fall under the UW's educational use criteria required under the Federal grant.

Another option investigated but ultimately not deemed viable was to create garden apartments on the west side of the building by excavating down to the basement floor level within the 'U' shape on the west side. The thinking was that this would allow for ample light and direct access, making desirable apartments. Ultimately Lorig determined that the excavation and construction costs were in excess of what the apartment values were, so the idea was not pursued.

The conceptual plans place nearly 120 apartment units in Building 9. We used 113 units for purposes of the proforma. Although the Sand Point Overlay does not require dedicated parking spaces for the units, parking is definitely a concern when marketing apartments. The nearest parking lot is a minimum of 400 feet from the building, which is not ideal. One option may be to add parking to the paved roadway west of the building to provide at least some parking spaces proximate to the building.

## CONSTRUCTION COSTS

Lorig's scope of work did not allow for a full construction plan and detailed vetting of all the construction costs. In 2004 however, Lorig studied building student apartments in Building 9. Marpac Construction Company prepared a cost estimate for this study which Lorig used as a basis for the cost of construction today. Lorig was concerned about some components of construction so current cost estimates for certain work scopes were obtained. These included demolition and environmental hazard abatement, roof reconstruction, electrical system replacement and exterior brick repair. Updating costs for these portions of work and applying inflation factors to Marpac's estimate, Lorig concluded current cost estimates for construction should be achievable around \$155 per square foot, which is the amount used in the proforma. Acknowledging that this methodology has a margin of error, especially given the complexity of rehabilitating a historic building, the cost of construction would be better represented as a range between \$155 and perhaps as high as \$180 per square foot.

## FINANCING SOURCES

The financing for the project could include several different sources, some or all of which may be required. The optimum combination of these possible sources of money will need to be addressed when further work is done. The possible funding sources are as follows:

- Conventional bank financing for construction with a conventional permanent loan after construction
- Tax-exempt bond financing
- Sale of historic tax credits
- Use of the 10-year real estate tax exemption to lower operating cost thereby increasing the project's net operating income and its borrowing capacity
- Income from storage use of the basement
- A grant or low interest loan from a community investor
- An equity investment from a private investor

Each of these sources has its own peculiar limitations and restrictions, some of which may not be compatible with other potential sources.

The likely financing model addressed by Lorig's financial analysis would involve conventional bank financing supplemented by historic tax credits, real estate tax exemption, supplemental income from commercial storage use, and a grant or low-interest loan from a community investor. Depending on the amount of grant or low-interest loan money available, private equity may be necessary as well. In this circumstance, the building would be leased to a taxable entity that could use the tax credits and guarantee the construction loan.

## **OWNERSHIP AND FINANCING STRUCTURE**

As noted above, different financing structures and related ownership structures were considered as part of the analysis, including Section 63-20 tax-exempt bond financing in partnership with the National Development Council. The recommended structure is one of conventional debt financing, supplemented with equity attracted by the Historic Rehabilitation Tax Credit (HRTC) and some community-driven investment. As an eligible historic building, the redevelopment of Building 9 can attract significant funds through the sale of HRTCs, roughly a \$5,000,000 benefit to the project, but to take advantage of the HRTC the project must be held by a taxable entity. Consequently, this model necessitates that the UW lease the ground and improvements to a taxable entity. This entity will take ownership for the rehabilitation, operation and financing of the building during the 30 to 60 year ground lease from the UW.

The length of the lease affects the ability to finance the project with conventional debt. A 30 year lease would be about the minimum a lender would be comfortable underwriting since at the end of the lease term their

collateral disappears. In order to explain this issue further, assume the standard term for conventional loans is 10 years. In this case the project must be refinanced several times over the term of the lease. The issue arises when the debt must be refinanced and there is less than 10 years left on the lease. At that point all potential lenders recognize their collateral will disappear leaving them with no security upon which to base the loan. This in turn necessitates the renegotiation of the lease after 20 years. Otherwise, as the project cannot refinance their loan, they must either pay off the loan in cash or default, facing foreclosure on the leasehold interest. In essence, the longer the lease, the easier it will be to underwrite. If the UW is reluctant to lease the building for more than 30 years an option would be for them to include a couple of loan extensions of at least 10 years each.

The short ground lease would also make it difficult to find outside investors for the same reason; their investment disappears after 30 years. The investor's return is based solely on the cash flow the property produces prior to the lease expiration. At least 30 years is needed to replace the value appreciation offered by a conventional investment that includes a sale at the end.

The taxable entity would secure equity from an investor, conventional debt financing and a financial contribution from a community investor. The private investor gains the tax benefit of the HRTC and some of the cash flow from the project. Since the project rehabilitates an historic property, it will also benefit from a 10 year real estate tax exemption under the special valuation program for historic buildings with national or local designation. In order to enter into such a structure however, the UW will need approval from the US Secretary of Education for the revised plan of use, the lease and financing required, as stipulated in the conditions of the quitclaim deed.

On analysis, Section 63-20 tax-exempt bond financing did not make sense for this project for several reasons, the most significant being the loss of the HRTC and thereby \$5,000,000 of potential funding. In order to receive the HRTC, the property must be held by a taxable entity that can take the tax credit, while 63-20 bond financing is available only to non profit, tax-exempt organizations. There was insufficient benefit from tax-exempt financing to supplant the considerable equity attractable through the HRTC.

## **FINANCING ANALYSIS**

With these sources in mind, Lorig built three proformas assuming varying community investor contribution and private equity requirements. The building size, unit mix, development costs and rental rates remained the same in all three scenarios. The rental rates were set with half the units at 80 percent AMI and the other half of the units at 100 percent AMI. Per standard practice, all three proformas use a 10 year operating timeline to calculate the return on the equity. Note that decreasing the rental rates on all the units to 80 percent AMI does not return a rate high enough to attract investors.

The variable between the three proformas is the source of funding and the assumptions behind it. Scenario one assumes a community investor grants the project \$2,000,000. The grant would decrease the private equity requirement and thereby boost the return enough to attract a for-profit equity investor. The equity investment would be around \$6,500,000 and would provide about 14.1 percent, calculated as an internal rate of return (IRR).

Scenario two requires a community investor to loan \$5,000,000 to the project. It presumes that no interest will be paid on the loan but that the principle will be repaid over 30 years. The loan would again reduce the equity requirement and boost the return for the private investor putting in the balance of the equity. In that case the equity investment would be about \$3,500,000 and the return would be in the range of 24 percent IRR, which is probably over the necessary returns required by a for-profit investor. Consequently Lorig believes the project could afford to lower the amount of the community investment loan, absorb higher development costs or further subsidize the rental rates for renters under 80 percent of AMI.

Scenario three makes the assumption that a community investor would fully fund the necessary equity. The \$8,500,000 investment would yield a 10.4 percent IRR over the 30 year presumed investment period. The lower than market return may seem attractive to a community investor that has mission-related goals such as supporting workforce housing, but the investment of principle is significant.

One caution with respect to this model is the rental rate of the one bedroom with one bathroom. At an 100 percent AMI affordability level, the rent would be \$1,420 per month. This rate may need to drop slightly in order

to be competitive in the market. While a slight rent reduction for the smaller units will impact the proforma, Lorig believes the rate of return will still be acceptable to the private investor.

When \$180 per square foot was assumed as the construction cost, not surprisingly the proforma was significantly affected. The project still works financially, but in order to maintain an equity investor's return of 14.1 percent, all the units' rents would have to increase to be affordable for people at 102 percent of AMI.

## **AUTHORITIES NEEDED TO PROCEED**

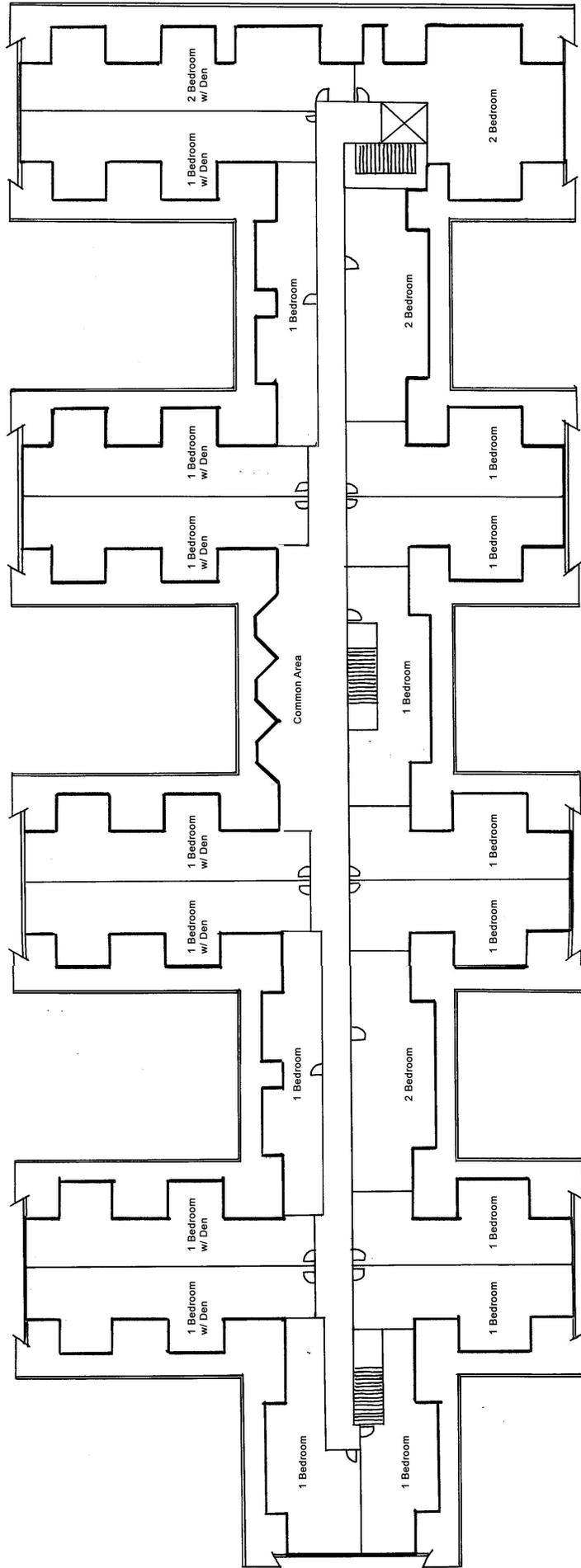
Federal approval must be obtained in order to move forward with the recommendations contained in this report. Workforce housing and basement storage, lease of the ground and improvements and involvement of a taxable entity to finance the project were not part of UW's original application to the Department of the Navy and therefore not allowed under the conditions and covenants of the quitclaim deed. Lorig believes that the proposed use will be approved since it is related to education. Lorig also believes the Federal Government will grant permission for the ownership structure and financing mechanism since this maximizes the money received to finance the project which is otherwise not financially feasible.

Receiving approval from the SHPO is the final key component necessary in order to move forward with the recommendations. Again, the quitclaim deed places restrictions on altering the building. For this building to be anything other than barracks modifications of some nature will be required. The recommendations in this report minimize the modifications, keeping the contributing historical features intact. For this reason, Lorig believes the SHPO will approve the changes.

# Conceptual Floor Plan



# Third Floor South Wing Conceptual Floor Plan



Not to Scale

# Construction Cost Estimate



| Description               | Takeoff Quantity | Labor Cost | Material Cost | Subcontractor Cost | Equipment Cost | Other Cost | Total Cost  |
|---------------------------|------------------|------------|---------------|--------------------|----------------|------------|-------------|
| <b>General Conditions</b> |                  |            |               |                    |                |            |             |
| Supervision               |                  | \$724,710  | \$25,500      | \$38,063           | \$321,688      | \$32,090   | \$1,142,051 |
| Carpenter Foreman         |                  | \$187,880  |               |                    |                |            |             |
| Project Management        |                  | \$177,600  |               |                    |                |            |             |
| Trucking                  |                  | \$236,272  |               |                    | \$30,260       |            |             |
| Safety Meetings           |                  | \$3,050    |               |                    |                |            |             |
| Temporary Phone           |                  |            | \$3,000       |                    | \$11,900       | \$4,340    |             |
| Temporary Electric        |                  | \$2,174    |               |                    |                | \$10,850   |             |
| Temporary Water           |                  |            |               |                    | \$1,400        | \$1,400    |             |
| Temporary Toilet          |                  |            |               |                    | \$11,920       |            |             |
| Temporary Fence           |                  |            |               |                    | \$48,048       |            |             |
| Traffic Control           |                  | \$4,349    |               |                    | \$5,000        |            |             |
| First Aid Equipment       |                  |            |               |                    | \$1,540        |            |             |
| Temporary Protection      |                  | \$6,187    | \$6,000       |                    |                |            |             |
| Daily Cleanup             |                  | \$33,486   |               |                    | \$36,000       |            |             |
| Dumpster Rental           |                  |            |               | \$38,063           |                |            |             |
| Final Cleanup             |                  |            | \$6,000       |                    |                |            |             |
| Punchlist                 |                  | \$24,749   | \$9,000       |                    |                |            |             |
| Warranty                  |                  | \$9,000    |               |                    |                |            |             |
| Site Office Supplies      |                  |            |               |                    | \$2,800        |            |             |
| Site Office Equipment     |                  |            |               |                    | \$16,800       |            |             |
| Blue Prints               |                  |            |               |                    |                | \$10,000   |             |
| Job Photographs           |                  |            |               |                    |                | \$5,500    |             |
| Job Sign                  |                  | \$363      | \$1,500       |                    |                |            |             |
| Equipment Rental          |                  |            |               |                    | \$50,000       |            |             |
| Booms/Lifts               |                  |            |               |                    | \$40,000       |            |             |
| Forklift                  |                  |            |               |                    | \$60,000       |            |             |
| Scaffolds                 |                  |            |               |                    | \$6,000        |            |             |
| General Labor             |                  | \$39,600   |               |                    |                |            |             |
|                           |                  | \$351      |               | \$78,200           |                |            | \$78,551    |
| <b>Site Demolition</b>    |                  |            |               |                    |                |            |             |
| Site Demo                 |                  |            |               | \$25,000           |                |            |             |
| Remove Asphalt            |                  |            |               | \$13,200           |                |            |             |
| Remove Railings           |                  | \$351      |               |                    |                |            |             |
| Remove Misc Concrete      |                  |            |               | \$20,000           |                |            |             |
| Demo Site Utilities       |                  |            |               | \$20,000           |                |            |             |
|                           |                  | \$22,677   | \$22,240      | \$33,860           | \$28,678       |            | \$107,455   |
| <b>Earthwork</b>          |                  |            |               |                    |                |            |             |
| Earthwork                 | 1.00 ls          |            |               | \$20,000           |                |            |             |

| Description                     | Takeoff Quantity     | Labor Cost | Material Cost | Subcontractor Cost | Equipment Cost  | Other Cost      | Total Cost         |
|---------------------------------|----------------------|------------|---------------|--------------------|-----------------|-----------------|--------------------|
| Tree Protection<br>Cut and Fill |                      | \$983      | \$252         |                    | \$22,000        |                 |                    |
| Hand Excavation                 |                      | \$10,872   |               |                    | \$1,970         |                 |                    |
| Import Materials                |                      | \$2,125    | \$21,988      |                    | \$748           |                 |                    |
| Backfill                        |                      | \$4,711    |               |                    | \$3,960         |                 |                    |
| Rough Grade Site                |                      |            |               |                    |                 |                 |                    |
| Fine Grading                    |                      | \$3,986    |               | \$13,860           |                 |                 |                    |
| Drain Tile                      |                      |            |               |                    |                 |                 |                    |
| <b>Site Utilities</b>           |                      |            |               | <b>\$59,850</b>    |                 | <b>\$20,000</b> | <b>\$79,850</b>    |
| Site Utilities                  | 1.00 ls              |            |               | \$15,000           |                 |                 |                    |
| Storm                           | 2.00 ls              |            |               | \$16,500           |                 |                 |                    |
| Sanitary                        | 1.00 ls / 400.00 lf  |            |               | \$20,100           |                 |                 |                    |
| Water                           | 150.00 lf            |            |               | \$8,250            |                 | \$20,000        |                    |
| Water Meter Charges             | 1.00 ea              |            |               |                    |                 |                 |                    |
| <b>Paving</b>                   |                      |            |               | <b>\$153,170</b>   |                 |                 | <b>\$153,170</b>   |
| Asph Paving                     | 20,000.00 sf         |            |               | \$48,400           |                 |                 |                    |
| Pavers                          | 8,000.00 sf          |            |               | \$74,800           |                 |                 |                    |
| Curb, Gutter & Sidewalk         | 5,200. sf / 85.00 ea |            |               | \$26,395           |                 |                 |                    |
| Extruded Curbs                  | 500.00 lf            |            |               | \$1,375            |                 |                 |                    |
| Striping                        | 1.00 ls              |            |               | \$2,200            |                 |                 |                    |
| <b>Landscaping</b>              |                      |            |               | <b>\$65,000</b>    |                 |                 | <b>\$65,000</b>    |
| Landscape & Irrigation          | 1.00 ls              |            |               | \$65,000           |                 |                 |                    |
| <b>Selective Demolition</b>     |                      |            |               | <b>\$1,204,700</b> | <b>\$20,000</b> |                 | <b>\$1,239,700</b> |
| Int. Demo Misc                  |                      | \$15,000   |               | \$1,144,700        |                 |                 |                    |
| Sawcut Conc Wall                |                      |            |               | \$35,000           |                 |                 |                    |
| Concrete Coring                 |                      |            |               | \$25,000           |                 |                 |                    |
| Temp Shoring                    |                      | \$15,000   |               |                    | \$20,000        |                 |                    |
| <b>Hazmat Abatement</b>         |                      |            |               | <b>\$875,000</b>   |                 | <b>\$10,000</b> | <b>\$900,000</b>   |
| Abatement                       | 2.00 ls              | \$15,000   |               | \$875,000          |                 |                 |                    |
| <b>Concrete</b>                 |                      |            |               | <b>\$92,000</b>    |                 |                 | <b>\$92,000</b>    |
| Conc Form & Pour                | 1.00 sl / 480.00 lf  |            |               | \$92,000           |                 |                 |                    |
| <b>Masonry</b>                  |                      |            |               | <b>\$233,163</b>   |                 |                 | <b>\$233,163</b>   |
| Masonry                         |                      |            |               | \$233,163          |                 |                 |                    |

| Description                      | Takeoff Quantity | Labor Cost | Material Cost | Subcontractor Cost | Equipment Cost | Other Cost | Total Cost |
|----------------------------------|------------------|------------|---------------|--------------------|----------------|------------|------------|
| <b>Steel</b>                     |                  |            |               |                    |                |            |            |
| Structural Steel                 |                  | \$2,620    | \$3,932       | \$80,000           |                |            | \$86,552   |
|                                  |                  | \$2,620    | \$3,932       | \$80,000           |                |            |            |
| <b>Rough Carpentry</b>           |                  |            |               |                    |                |            |            |
| Top & Bottom Plates              |                  | \$258,619  | \$302,615     | \$188,248          |                |            | \$749,482  |
| Studs                            |                  | \$9,463    | \$9,216       |                    |                |            |            |
| Blocking & Backing               |                  | \$10,346   | \$11,925      |                    |                |            |            |
| Wall Sheathing                   |                  | \$13,533   | \$23,840      |                    |                |            |            |
| Joist                            |                  | \$129,705  | \$162,131     | \$100,000          |                |            |            |
| Stair Framing                    |                  | \$501      | \$677         | \$28,248           |                |            |            |
| Nails & Adhesive                 |                  | \$5,136    | \$1,826       |                    |                |            |            |
| Nuts & Bolts                     |                  |            | \$15,000      |                    |                |            |            |
| Framing Hardware                 |                  | \$27,000   | \$25,000      |                    |                |            |            |
| Misc Framing                     |                  | \$62,936   | \$30,000      | \$60,000           |                |            |            |
|                                  |                  |            | \$23,000      |                    |                |            |            |
| <b>Interior Finish Carpentry</b> |                  |            |               |                    |                |            |            |
| Wood Base                        |                  | \$109,955  | \$180,140     |                    |                |            | \$290,095  |
| Door Casing                      |                  | \$48,181   | \$81,299      |                    |                |            |            |
| Chair Railing                    |                  | \$32,343   | \$48,025      |                    |                |            |            |
| Wood Handrail                    |                  | \$4,726    | \$9,350       |                    |                |            |            |
| Misc Finish Carpentry            |                  | \$6,968    | \$9,266       |                    |                |            |            |
|                                  |                  | \$17,737   | \$32,200      |                    |                |            |            |
| <b>Waterproofing</b>             |                  |            |               |                    |                |            |            |
| Bentonite Wtrprf                 | 11,500.00 sf     |            |               | \$80,500           |                |            | \$80,500   |
| <b>Insulation</b>                |                  |            |               |                    |                |            |            |
| Bldg Thermal Insl                | 58,000.00 sf     |            |               | \$86,944           |                |            | \$86,944   |
| Sound Batt Insl                  | 130,000.00 sf    |            |               | \$49,764           |                |            |            |
|                                  |                  |            |               | \$37,180           |                |            |            |
| <b>Spray Fire Proofing</b>       |                  |            |               |                    |                |            |            |
| Fire Stopping                    |                  | \$7,800    | \$3,900       |                    |                |            | \$11,700   |
|                                  |                  | \$7,800    | \$3,900       |                    |                |            |            |
| <b>Roofing</b>                   |                  |            |               |                    |                |            |            |
| Comp Shingle Roofing             |                  | \$24,000   | \$48,000      | \$230,090          |                |            | \$302,090  |
| Built-up Roofing                 |                  | \$24,000   | \$48,000      | \$219,200          |                |            |            |
|                                  |                  |            |               | \$10,890           |                |            |            |
| <b>Sheet Metal</b>               |                  |            |               |                    |                |            |            |
| Downspouts & Gutters             |                  | \$20,000   | \$20,000      | \$41,000           |                |            | \$81,000   |
| Misc Flashing                    |                  | \$20,000   | \$20,000      | \$25,000           |                |            |            |
|                                  |                  |            |               | \$16,000           |                |            |            |

| Description                      | Takeoff Quantity | Labor Cost | Material Cost | Subcontractor Cost | Equipment Cost | Other Cost | Total Cost  |
|----------------------------------|------------------|------------|---------------|--------------------|----------------|------------|-------------|
| <b>Roof Accessories</b>          |                  |            |               |                    |                |            |             |
| Roof Vents                       |                  |            |               | \$47,000           |                |            | \$47,000    |
|                                  |                  |            |               | \$47,000           |                |            | \$47,000    |
| <b>Caulking/Sealant</b>          |                  |            |               |                    |                |            |             |
| Caulking                         |                  | \$8,848    | \$1,716       | \$43,320           |                |            | \$53,884    |
|                                  |                  | \$8,848    | \$1,716       | \$43,320           |                |            | \$53,884    |
| <b>Metal Doors</b>               |                  |            |               |                    |                |            |             |
| Hollow Metal                     |                  | \$19,850   | \$24,400      |                    |                |            | \$44,250    |
|                                  |                  | \$19,850   | \$24,400      |                    |                |            | \$44,250    |
| <b>Wood Doors</b>                |                  |            |               |                    |                |            |             |
| Wood Doors & Frames              |                  | \$59,230   | \$143,370     |                    |                |            | \$202,600   |
|                                  |                  | \$59,230   | \$143,370     |                    |                |            | \$202,600   |
| <b>Special Doors</b>             |                  |            |               |                    |                |            |             |
| OH Rolling Doors                 |                  |            |               | \$3,826            |                |            | \$3,826     |
|                                  |                  |            |               | \$3,826            |                |            | \$3,826     |
| <b>Windows</b>                   |                  |            |               |                    |                |            |             |
| Wood Windows                     |                  | \$1,000    | \$6,000       | \$56,250           |                |            | \$63,250    |
| Alum Windows                     |                  | \$1,000    | \$6,000       | \$56,250           |                |            | \$63,250    |
| <b>Door Hardware</b>             |                  |            |               |                    |                |            |             |
| Residential Hardware             |                  | \$1,237    | \$85,950      |                    |                |            | \$87,187    |
| Commercial Hardware              |                  | \$1,237    | \$57,150      |                    |                |            | \$58,387    |
|                                  |                  | \$1,237    | \$28,800      |                    |                |            | \$30,037    |
| <b>Glass &amp; Glazing</b>       |                  |            |               |                    |                |            |             |
| Glass & Glazing                  |                  |            |               | \$13,900           |                |            | \$13,900    |
| Mirrors                          |                  |            |               | \$6,460            |                |            | \$6,460     |
|                                  |                  |            |               | \$7,440            |                |            | \$7,440     |
| <b>Lath and Plaster (Stucco)</b> |                  |            |               |                    |                |            |             |
| Interior Plaster                 |                  |            |               | \$308,000          |                |            | \$308,000   |
|                                  |                  |            |               | \$308,000          |                |            | \$308,000   |
| <b>Gypsum Wallboard</b>          |                  |            |               |                    |                |            |             |
| Gypsum Wallboard                 |                  | \$5,000    | \$5,000       | \$2,434,477        | \$120,000      |            | \$2,564,477 |
| Drywall & Metal Stud             |                  | \$5,000    | \$5,000       | \$164,234          | \$120,000      |            | \$394,234   |
|                                  |                  |            |               | \$2,270,243        |                |            | \$2,270,243 |
| <b>Acoustical</b>                |                  |            |               |                    |                |            |             |
| Acoustical Ceiling               |                  |            |               | \$36,008           |                |            | \$36,008    |
|                                  |                  |            |               | \$36,008           |                |            | \$36,008    |
| <b>Finish Flooring</b>           |                  |            |               |                    |                |            |             |
| Carpet                           |                  |            |               | \$543,061          |                |            | \$543,061   |
|                                  |                  |            |               | \$381,492          |                |            | \$381,492   |

| Description                          | Takeoff Quantity | Labor Cost      | Material Cost    | Subcontractor    |      | Equipment Cost | Other Cost | Total Cost       |
|--------------------------------------|------------------|-----------------|------------------|------------------|------|----------------|------------|------------------|
|                                      |                  |                 |                  | Cost             | Cost |                |            |                  |
| Vinyl Flooring                       |                  |                 |                  | \$115,185        |      |                |            |                  |
| Rubber Base                          |                  |                 |                  | \$14,116         |      |                |            |                  |
| Vinyl Stair Treads                   |                  |                 |                  | \$4,941          |      |                |            |                  |
| Floor Prep                           |                  |                 |                  | \$22,327         |      |                |            |                  |
| Floor Mats                           |                  |                 |                  | \$5,000          |      |                |            |                  |
| <b>Paint &amp; Wall Coverings</b>    |                  |                 |                  | <b>\$401,848</b> |      |                |            | <b>\$401,848</b> |
| Paint                                |                  |                 |                  | \$389,348        |      |                |            |                  |
| Plastic Laminate                     |                  |                 |                  | \$12,500         |      |                |            |                  |
| <b>Toilet &amp; Bath Accessories</b> |                  |                 |                  |                  |      |                |            | <b>\$37,221</b>  |
| Medicine Cabinet                     |                  | <b>\$9,025</b>  | <b>\$28,196</b>  |                  |      |                |            |                  |
| Shower Rods                          |                  | \$4,563         | \$17,700         |                  |      |                |            |                  |
| Towel Bars                           |                  | \$1,141         | \$3,540          |                  |      |                |            |                  |
| Grab Bars                            |                  | \$3,012         | \$4,956          |                  |      |                |            |                  |
| Mop Hold Strip                       |                  | \$258           | \$1,400          |                  |      |                |            |                  |
|                                      |                  | \$52            | \$600            |                  |      |                |            |                  |
| <b>Fire Protection</b>               |                  |                 |                  |                  |      |                |            | <b>\$12,117</b>  |
| Fire Ext Cabinet                     |                  | <b>\$3,867</b>  | <b>\$8,250</b>   |                  |      |                |            |                  |
|                                      |                  | \$3,867         | \$8,250          |                  |      |                |            |                  |
| <b>Mailboxes</b>                     |                  |                 |                  |                  |      |                |            | <b>\$7,471</b>   |
| Ganged Mailbox                       |                  | <b>\$2,011</b>  | <b>\$5,460</b>   |                  |      |                |            |                  |
|                                      |                  | \$2,011         | \$5,460          |                  |      |                |            |                  |
| <b>Specialties</b>                   |                  |                 |                  |                  |      |                |            | <b>\$67,877</b>  |
| Architectural Louvers                |                  | <b>\$6,366</b>  | <b>\$28,776</b>  |                  |      |                |            |                  |
| Access Doors                         |                  | \$1,210         | \$6,600          |                  |      |                |            |                  |
| Wire Shelving                        |                  | \$5,156         | \$6,600          |                  |      |                |            |                  |
| Signs                                |                  |                 |                  | \$16,500         |      |                |            |                  |
| Shower/Tub                           |                  |                 | \$15,576         | \$6,500          |      |                |            |                  |
|                                      |                  |                 |                  | \$9,735          |      |                |            |                  |
| <b>Appliances</b>                    |                  |                 |                  |                  |      |                |            | <b>\$155,560</b> |
| Ranges                               |                  | <b>\$17,500</b> | <b>\$138,060</b> |                  |      |                |            |                  |
| Range Hoods                          |                  | \$2,011         | \$35,100         |                  |      |                |            |                  |
| Refrigerators                        |                  | \$8,043         | \$10,920         |                  |      |                |            |                  |
| Dishwashers                          |                  | \$3,424         | \$66,300         |                  |      |                |            |                  |
|                                      |                  | \$4,022         | \$25,740         |                  |      |                |            |                  |
| <b>Window Coverings</b>              |                  |                 |                  |                  |      |                |            | <b>\$42,500</b>  |
| Horizontal Blinds                    |                  |                 |                  | <b>\$42,500</b>  |      |                |            |                  |
| <b>Furnishings</b>                   |                  |                 |                  |                  |      |                |            | <b>\$313,550</b> |
|                                      |                  | <b>\$56,750</b> | <b>\$200,120</b> |                  |      |                |            |                  |

| Description                          | Takeoff Quantity | Labor Cost         | Material Cost      | Subcontractor                                   |                    | Total Cost          |
|--------------------------------------|------------------|--------------------|--------------------|---|--------------------|---------------------|
|                                      |                  |                    |                    | Cost  | Equipment Cost     |                     |
| Other Cost                           |                  |                    |                    |   |                    |                     |
| Res. Modular Cabinets<br>Countertops |                  | \$55,950<br>\$800  | \$199,320<br>\$800 | \$56,680  |                    | \$144,000           |
| Elevator                             |                  |                    |                    | \$144,000<br>\$144,000                          |                    | \$144,000           |
| Plumbing<br>Fire Protection<br>HVAC  |                  | \$3,094            | \$2,250            | \$716,200<br>\$50,000<br>\$400,700<br>\$265,500 | \$963,920          | \$1,685,464         |
| Electrical                           |                  | \$3,094            | \$2,250            | \$1,550,000<br>\$1,550,000                      |                    | \$1,550,000         |
| <b>Total</b>                         |                  | <b>\$2,789,022</b> | <b>\$2,567,750</b> | <b>\$19,939,186</b>                             | <b>\$1,944,632</b> | <b>\$14,164,354</b> |
| Equipment Use                        |                  | \$127,977          |                    |   |                    |                     |
| Labor Tax                            |                  | \$488,078          |                    |   |                    |                     |
| Small Tools                          |                  | \$41,835           |                    |   |                    |                     |
| Safety                               |                  | \$20,918           |                    |   |                    |                     |
| Overhead and Profit                  |                  | \$742,157          |                    |   |                    |                     |
| General Liability                    |                  | \$216,273          |                    |   |                    |                     |
| Bond                                 |                  | \$117,495          |                    |   |                    |                     |
| State B&O Tax                        |                  | \$66,714           |                    |   |                    |                     |
| Local B&O Tax                        |                  | \$34,443           |                    |   |                    |                     |
| <b>Total</b>                         |                  | <b>\$1,855,890</b> |                    |   |                    |                     |
| <b>Grand Total</b>                   |                  |                    |                    |   |                    | <b>\$16,020,244</b> |



# Demolition & Environmental Hazard Abatement Cost Estimate





P.O. Box 81005  
Seattle, WA 98108 - 1005

Phone: (206) 267-0746  
Fax: (206) 267-0753

September 10, 2008

George Osborne  
Lorig Associates LLC  
Market Place Tower  
2025 1<sup>st</sup> Ave., Suite 420  
Seattle, WA 98121

Phone: 206-484-8538  
Fax: 262-728-5847  
Email: [gosborne@lorig.com](mailto:gosborne@lorig.com); [khoffman@lorig.com](mailto:khoffman@lorig.com)

Re: Demolition & Abatement at: **Building 9 – Sandpoint Way, Seattle, WA:**

### **BUDGET ESTIMATE**

Based on the information available (drawings from the Lorig ftp site) and our site inspection we have identified a proposed scope of work for the Building 9 site. The scope will include the total demolition and removal of the center Barracks/Mess Hall building and the “gutting” of the remaining north & south ends of Building 9. The gutting will include removing the architectural elements within the building leaving the structural portion of the building intact. In addition, the assumed presence of lead paint on the items to be demolished has been factored into the demolition budget price – with the assumption that the TCLP testing will allow the debris to be disposed of as regular CDL versus as lead hazardous waste (TCLP tests can be performed before demolition begins to answer this question of waste disposal).

The types and quantities of the asbestos materials remaining in the building are unknown at this time (a certified asbestos survey will be required to identify the asbestos and lead materials before the renovation work can begin). However, based on our site inspection we have provided the following budget price for asbestos abatement in the buildings.

**Demolition & Abatement Budget Estimate: \$ 2,450,000.00**  
**Prices Exclude Washington State Sales Tax**

If you have any questions on this pricing or need any additional information please feel free to contact me at your convenience. Thank you for this opportunity to provide with the Budget pricing.

Respectfully submitted,  
**American Environmental Construction, LLC**

Chris Eckholm  
Chris Eckholm -- Project Estimator

# Roof Reconstruction Cost Estimate



# NORTHWEST

## ROOF CONSULTANTS, INC.

August 26, 2008

AUG 29 2008

Lorig Associates L.L.C.  
2025 1<sup>st</sup> Avenue  
Suite 420  
Seattle, WA 98121

Attention: George Osborne

Re: Building 9

At your request I inspected the roof of the above referenced building on August 21, 2008.

The roof is a steep slope shingle with areas of small flat decks. The steep slope areas appear to have a 6/12 pitch. The flat roofed areas have a ¼ to ½ inch pitch. The roof deck appears to be 1 by 6 Ship Lap.

The building is in two sections: North Building and South Building separated by a low flat roofed area.

North Building:

The Roof on this section is near the end of its service life. The Shingles are weathered and showing cracks in the surface. The shingles were installed with nails that are slightly shorter than recommended. Typically shingle nails should penetrate the ship lap decking; the nails that were randomly checked did not penetrate the deck. The sides of the dormers had Shingles installed; this is also a non standard use of the product. There are a few areas of flat roofs that have a built up roof with gravel installed; these roof areas are in fair condition. The roof does not appear to have any provisions for ventilation.

South Building:

The South Building roof is in better condition than the North building. The shingles are in better condition. The nails that were used on this building were longer than the nails used on the North Building. There are no flat roofed areas on the building. Shingles were also installed on the sides of the dormers.

On both buildings Shingles were removed to check the substrate. There was old roofing felt under the new roofing felt. This old roofing felt might contain Asbestos. The flat roofed areas on the North Building might also have Asbestos in the roof plies.

Our recommendations for replacing the roofs would be as follows:

1. Tear off all roofing and dispose of legally
2. Inspect and repair the Ship Lap decking as needed.
3. Install a layer of plywood over the Ship Lap decking if required for a seismic diaphragm.
4. Install R-30 rigid roof insulation with an overlay of plywood that has a built in venting system.
5. Install a UDL Base Sheet over the plywood.
6. Install SBS 50 year Shingles.
7. At flat roof areas install Rigid Insulation and SBS Roofing.
8. All metal Flashings should be Pre-painted 24 ga.

A budget for this roofing work in today dollars would be in the range of \$900,000.00 to \$1,100,000.00. This budget would be for the above described roofing work only. There would be some additional carpentry work based on the thickness of the new insulation at the gutter edge. The budget does not take into consideration any Asbestos Abatement or work on the low flat roofed area.

Attached are photos of the roofs and building.

If you have any questions please do not hesitate to call.

Sincerely,

Chris L. Smith



# Electrical System Replacement Cost Estimate



# ACTIVE ENGINEERING

Electrical Contracting and Design

Date: 8-22-08  
To: George Osborn  
Project: Building #9

George I have calculated building # 9 electrical loads based on 147 fully electric apartment units and have attached the assumption sheet your office has had on record since 2000, which I believe still applies.

The total load for building #9 looks to be well within the capability of the existing utility delivery infrastructure. The existing City Light pad mount transformer prep can feed a load of about 2,000 KVA. The calculated demand for 147 units, 2 elevators and common areas totals about 1,500 KVA.

A rough ROM of the cost to totally wire a 147-unit apartment building is as follows:

Total building electrical costs, turn key to code (limited to the building itself): \$2,200,000.00  
Total outside plant infrastructure costs for low and line voltage not including utility fees: \$200,000.00  
Estimated utility fees \$80,000.00

Assumptions: Units are separately metered, all electric kitchens, electric heat, electric water heaters, electric washers and dryers. Building has 2- 40 HP elevators, cooling and heating in the hallways, misc offices and utility rooms, meeting rooms and exercise rooms.

Thanks

Terry Jensen

**Future Use**

Existing transformer to be disconnected from base power grid - within 2 years.

New transformer bases with below grade conduit installed in 1999 for three new service locations; north, center and south..

New transformer pads not designed for any specific assumptions or future needs, not designed for any specific use/location/design.

Will accommodate up to 750 KVA service each (maximum for pad mounted transformers).

If three services, code requires 2 hour separation of buildings served by separate transformers.

If buildings not separated, requirements include full time on site maintenance personnel; other exemptions.

If service greater than 750 KVA in one location , requires separate transformer vault inside structure.

**Future Demand -**

If electrical heat, using moderate assumption of 5 amps per sq ft and 200,000 sq ft of occupied space would require 800 KVA for heating - plus water, cooking, lights. Would require half capacity of two transformers or one dedicated transformer.

**His recommendation -**

General - electric heat not appropriate given size, low insulation, configuration of existing building.

If electric - preferences would be

- a. oil baseboard
- b. central fan
- c. in wall forced air fan
- d. cheap base



# Proformas



# Historic Rehabilitation Tax Credits and \$2 Million Grant

## Scenario I

Building 9  
Workforce Apartments w/ HRTC & \$2M Grant

### Building Summary

| Unit Type       | Number of Units | Average SF | Average Rent | % of AMI |
|-----------------|-----------------|------------|--------------|----------|
| 1bd / 1ba       | 27              | 642        | 1,115        | 80%      |
| 1bd + den / 1ba | 12              | 941        | 1,115        | 80%      |
| 2bd / 1ba       | 2               | 887        | 1,321        | 80%      |
| 2bd / 2ba       | 16              | 1,110      | 1,321        | 80%      |
| 1bd / 1ba       | 26              | 642        | 1,420        | 100%     |
| 1bd + den / 1ba | 12              | 941        | 1,420        | 100%     |
| 2bd / 1ba       | 2               | 887        | 1,687        | 100%     |
| 2bd / 2ba       | 16              | 1,110      | 1,687        | 100%     |
|                 | 113             |            |              |          |

Commercial  
SF: 59,440    Rent/SF/Yr: \$ 6.00

| Apartment                           | Net Rentable Common Area | SF  |
|-------------------------------------|--------------------------|-----|
| Net Rentable Common Area            | 95,668                   |     |
| Subtotal Gross Square Feet          | 31,869                   | 25% |
| Commercial - Public Storage Company | 59,440                   |     |
| Net Rentable Common Area            | 14,860                   | 20% |
| Subtotal Gross Square Feet          | 74,300                   |     |
| Total Gross Square Feet             | 201,837                  |     |

### Development Budget & HRTC Eligible Basis

| Hard Costs                      | Project Budget      | HRTC Eligible Basis |
|---------------------------------|---------------------|---------------------|
| Land                            | 0                   | 0                   |
| Sitework                        | 0                   | 0                   |
| Hard Costs                      | \$155/sf 21,625,735 | 21,625,735          |
| Demolition                      | 0                   | 0                   |
| Hazardous Materials & Abatement | 0                   | 0                   |
| Tenant Improvements             | 0                   | 0                   |
| Furniture, Fixtures & Equipment | 20,000              | 0                   |
| Hard Cost Contingency           | 5% 1,081,287        | 1,081,287           |
| Sales Tax                       | 9% 2,045,432        | 2,045,432           |
| Subtotal Hard Costs             | 24,772,454          | 24,752,454          |

| Soft Costs                               | Project Budget | HRTC Eligible Basis |
|--|----------------|---------------------|
| Design Costs (Architect, Engineer, etc.) | 1,514,000      | 1,514,000           |
| Design Reimbursements                    | 43,000         | 43,000              |
| Other Consultants                        | 2.0% 433,000   | 433,000             |
| Permits                                  | 0.7% 173,000   | 173,000             |
| Construction Testing                     | 0.4% 99,000    | 99,000              |
| Project Management                       | 5.0% 1,506,000 | 1,506,000           |
| PM Reimbursements                        | 20,000         | 20,000              |
| Legal Fees                               | 124,000        | 124,000             |
| Utilities                                | 619,000        | 619,000             |
| Insurance                                | 0.6% 149,000   | 149,000             |
| Marketing                                | 248,000        | 0                   |
| Real Estate Taxes                        | 15,000         | 0                   |
| Startup Costs                            | 20,000         | 0                   |
| Miscellaneous                            | 10,000         | 0                   |
| Loan Financing Costs                     |                |                     |
| Financing Costs - Legal, Escrow, Title   |                |                     |
| Loan Fees                                | 1.0% 20,000    | 0                   |
| Appraisal                                | 180,647        | 0                   |
| Interest - Construction Loan             | 10,000         | 0                   |
| Interest Reserve                         | 6.0% 1,724,431 | 0                   |
| Income Offset                            | 3 300,070      | 0                   |
| Bank Inspection                          | (654,540)      | 0                   |
| Interest - Predevelopment Loan           | 12,000         | 0                   |
| Soft Cost Contingency                    | 8.0% 48,031    | 0                   |
| Subtotal Soft Costs                      | 5.0% 249,250   | 0                   |
| Subtotal Uses of Funds                   | 6,862,889      | 4,680,000           |
|  | 31,635,343     | 29,432,454          |

### Operating Proforma

| Income                                    | Year:  | 2012      |
|---|--------|-----------|
|   | Year#: | 1         |
| Residential Rent Income (Market Rate)     |        | 1,138,916 |
| Residential Rent Income (Affordable Rate) |        | 890,854   |
| Commercial Rent Income                    |        | 356,640   |
| Parking Income                            |        | 0         |
| Storage Income                            |        | 0         |
| Commercial NNN Reimbursement              |        | 0         |
| Utility Reimbursement                     |        | 85,670    |
| Non-refundable Fees                       |        | 17,445    |
| Pet Fees                                  |        | 3,827     |
| Miscellaneous                             |        | 6,359     |
| Less: Residential Vacancy                 | 3%     | (60,893)  |
| Less: Commercial Vacancy                  | 0%     | 0         |
| Effective Gross Income                    |        | 2,438,818 |

| Expenses                               | Year:  | 2012      |
|--|--------|-----------|
|  | Year#: | 1         |
| Wages                                  |        | 76,309    |
| Insurance                              |        | 30,142    |
| Utilities                              |        | 107,088   |
| Janitorial                             |        | 38,155    |
| Maintenance                            |        | 63,337    |
| Services                               |        | 31,796    |
| Professional Management Fees           | 4%     | 97,553    |
| Administrative                         |        | 19,586    |
| Property taxes                         |        | 0         |
| Advertising                            |        | 40,190    |
| Turnover                               |        | 20,604    |
| LID (20 year term, with 11 years left) |        | 166,667   |
| Miscellaneous                          |        | 14,753    |
| Total Expenses                         |        | 706,180   |
| Net Operating Income                   |        | 1,732,638 |

### Sources & Returns

| Description  | Amount     | Return / Interest |
|--|------------|-------------------|
| Grant from a community investor - no ownership, interest, or return of capital | 2,000,000  | n/a               |
| Market rate, for-profit equity investment                                      | 6,567,150  | 14.1%             |
| 20% of HRTC Eligible Basis sold at \$0.85 of equity per \$1 of tax credit      | 5,003,517  | n/a               |
| Conventional debt - construction loan replaced by a permanent loan             | 18,064,675 | 6.0%              |
| Subtotal Sources of Funds  | 31,635,343 |                   |

# Historic Rehabilitation Tax Credits and \$5 Million Grant

## Scenario II

Building 9  
Workforce Apartments w/ HRTC & \$5M No-Interest Loan

### Building Summary

| Unit Type       | Number of Units | Average SF | Average Rent | % of AMI |
|-----------------|-----------------|------------|--------------|----------|
| 1bd / 1ba       | 27              | 642        | 1,115        | 80%      |
| 1bd + den / 1ba | 12              | 941        | 1,115        | 80%      |
| 2bd / 1ba       | 2               | 887        | 1,321        | 80%      |
| 2bd / 2ba       | 16              | 1,110      | 1,321        | 80%      |
| 1bd / 1ba       | 26              | 642        | 1,420        | 100%     |
| 1bd + den / 1ba | 12              | 941        | 1,420        | 100%     |
| 2bd / 1ba       | 2               | 887        | 1,687        | 100%     |
| 2bd / 2ba       | 16              | 1,110      | 1,687        | 100%     |
|                 | 113             |            |              |          |

Commercial  
SE 59,440  
Rent/SF/Yr \$ 6.00

| Apartment Type                      | Net Rentable Common Area | Subtotal Gross Square Feet | SE     | Rent/SF/Yr |
|-------------------------------------|--------------------------|----------------------------|--------|------------|
| Apartment Type                      | Net Rentable             | Common Area                | 59,440 | 6.00       |
|                                     | 95,668                   | 31,869                     |        |            |
|                                     | 127,537                  |                            |        |            |
| Commercial - Public Storage Company | Net Rentable             | Common Area                | 59,440 | 20%        |
|                                     | 14,860                   | 74,300                     |        |            |
|                                     | 74,300                   |                            |        |            |
|                                     | 201,837                  |                            |        |            |

### Development Budget & HRTC Eligible Basis

| Hard Costs                      | Project Budget | HRTC Eligible Basis |
|---------------------------------|----------------|---------------------|
| Land                            | 0              | 0                   |
| Sitework                        | 0              | 0                   |
| Hard Costs                      | \$155/sf       | 21,625,735          |
| Demolition                      | 0              | 0                   |
| Hazardous Materials & Abatement | 0              | 0                   |
| Tenant Improvements             | 0              | 0                   |
| Furniture, Fixtures & Equipment | 20,000         | 0                   |
| Hard Cost Contingency           | 5%             | 1,081,287           |
| Sales Tax                       | 9%             | 2,045,432           |
| Subtotal Hard Costs             | 24,772,454     | 24,752,454          |

| Soft Costs                               | Project Budget | HRTC Eligible Basis |
|--|----------------|---------------------|
| Design Costs (Architect, Engineer, etc.) | 1,514,000      | 1,514,000           |
| Design Reimbursements                    | 43,000         | 43,000              |
| Other Consultants                        | 433,000        | 433,000             |
| Permits                                  | 173,000        | 173,000             |
| Construction Testing                     | 99,000         | 99,000              |
| Project Management                       | 1,506,000      | 1,506,000           |
| PM Reimbursements                        | 20,000         | 20,000              |
| Legal Fees                               | 124,000        | 124,000             |
| Utilities                                | 619,000        | 619,000             |
| Insurance                                | 149,000        | 149,000             |
| Marketing                                | 248,000        | 0                   |
| Real Estate Taxes                        | 15,000         | 0                   |
| Startup Costs                            | 20,000         | 0                   |
| Miscellaneous                            | 10,000         | 0                   |
| Loan Financing Costs                     | 20,000         | 0                   |
| Financing Costs - Legal, Escrow, Title   | 180,647        | 0                   |
| Loan Fees                                | 10,000         | 0                   |
| Appraisal                                | 10,000         | 0                   |
| Interest - Construction Loan             | 1,724,431      | 0                   |
| Interest Reserve                         | 3              | 0                   |
| Income Offset                            | (654,540)      | 0                   |
| Bank Inspection                          | 12,000         | 0                   |
| Interest - Predevelopment Loan           | 48,031         | 0                   |
| Soft Cost Contingency                    | 249,250        | 0                   |
| Subtotal Soft Costs                      | 6,862,889      | 4,680,000           |
| Subtotal Uses of Funds                   | 31,635,343     | 29,432,454          |

### Sources & Returns

| Amount     | Return / Interest | Description   |
|------------|-------------------|---|
| 5,000,000  | n/a               | Loan from a community investor - no interest but repaid over 30 years     |
| 3,567,150  | 24.0%             | Market rate, for-profit equity investment                                 |
| 5,003,517  | n/a               | 20% of HRTC Eligible Basis sold at \$0.85 of equity per \$1 of tax credit |
| 18,064,675 | 6.0%              | Conventional debt - construction loan replaced by a permanent loan        |
| 31,635,343 |                   |   |

### Operating Proforma

| Income                                    | Year:  | 2012      |
|---|--------|-----------|
|   | Year#: | 1         |
| Residential Rent Income (Market Rate)     |        | 1,138,916 |
| Residential Rent Income (Affordable Rate) |        | 890,854   |
| Commercial Rent Income                    |        | 356,640   |
| Parking Income                            |        | 0         |
| Storage Income                            |        | 0         |
| Commercial NNN Reimbursement              |        | 0         |
| Utility Reimbursement                     |        | 85,670    |
| Non-refundable Fees                       |        | 17,445    |
| Pet Fees                                  |        | 3,827     |
| Miscellaneous                             |        | 6,359     |
| Less: Residential Vacancy                 | 3%     | (60,893)  |
| Less: Commercial Vacancy                  | 0%     | 0         |
| Effective Gross Income                    |        | 2,438,818 |
| Expenses                                  |        |           |
| Wages                                     |        | 76,309    |
| Insurance                                 |        | 30,142    |
| Utilities                                 |        | 107,088   |
| Janitorial                                |        | 38,155    |
| Maintenance                               |        | 63,337    |
| Services                                  |        | 31,796    |
| Professional Management Fees              | 4%     | 97,553    |
| Administrative                            |        | 19,586    |
| Property taxes                            |        | 0         |
| Advertising                               |        | 40,190    |
| Turnover                                  |        | 20,604    |
| LID (20 year term, with 11 years left)    |        | 166,667   |
| Miscellaneous                             |        | 14,753    |
| Total Expenses                            |        | 706,180   |
| Net Operating Income                      |        | 1,732,638 |

# Historic Rehabilitation Tax Credits and \$9 Million Grant

## Scenario III

Building 9  
Workforce Apartments w/ HRTC

### Building Summary

| Unit Type       | Number of Units | Average SF | Average Rent | % of AMI |
|-----------------|-----------------|------------|--------------|----------|
| 1bd / 1ba       | 27              | 642        | 1,115        | 80%      |
| 1bd + den / 1ba | 12              | 941        | 1,115        | 80%      |
| 2bd / 1ba       | 2               | 887        | 1,321        | 80%      |
| 2bd / 2ba       | 16              | 1,110      | 1,321        | 80%      |
| 1bd / 1ba       | 26              | 642        | 1,420        | 100%     |
| 1bd + den / 1ba | 12              | 941        | 1,420        | 100%     |
| 2bd / 1ba       | 2               | 887        | 1,687        | 100%     |
| 2bd / 2ba       | 16              | 1,110      | 1,687        | 100%     |
|                 | 113             |            |              |          |

Commercial  
SF 59,440 Rent/SF/Yr \$ 6.00

| Apartment                  | Net Rentable Common Area | SF  |
|----------------------------|--------------------------|-----|
| Net Rentable Common Area   | 95,668                   |     |
| Subtotal Gross Square Feet | 31,869                   | 25% |
|                            | 127,537                  |     |

| Commercial - Public Storage Company | Net Rentable Common Area | SF  |
|-------------------------------------|--------------------------|-----|
| Net Rentable Common Area            | 59,440                   |     |
| Subtotal Gross Square Feet          | 14,860                   | 20% |
| Total Gross Square Feet             | 74,300                   |     |

### Development Budget & HRTC Eligible Basis

| Hard Costs                      | Project Budget      | HRTC Eligible Basis |
|---------------------------------|---------------------|---------------------|
| Land                            | 0                   | 0                   |
| Sitework                        | 0                   | 0                   |
| Hard Costs                      | \$155/sf 21,625,735 | 21,625,735          |
| Demolition                      | 0                   | 0                   |
| Hazardous Materials & Abatement | 0                   | 0                   |
| Tenant Improvements             | 0                   | 0                   |
| Furniture, Fixtures & Equipment | 20,000              | 0                   |
| Hard Cost Contingency           | 5% 1,081,287        | 1,081,287           |
| Sales Tax                       | 9% 2,045,432        | 2,045,432           |
| Subtotal Hard Costs             | 24,772,454          | 24,752,454          |

### Soft Costs

|   |            |            |
|---|------------|------------|
| Design Costs (Architect, Engineer, etc.)    | 1,514,000  | 1,514,000  |
| Design Reimbursements                       | 43,000     | 43,000     |
| Other Consultants                           | 433,000    | 433,000    |
| Permits                                     | 173,000    | 173,000    |
| Construction Testing                        | 99,000     | 99,000     |
| Project Management                          | 1,506,000  | 1,506,000  |
| PM Reimbursements                           | 20,000     | 20,000     |
| Legal Fees                                  | 124,000    | 124,000    |
| Utilities                                   | 619,000    | 619,000    |
| Insurance                                   | 149,000    | 149,000    |
| Marketing                                   | 248,000    | 0          |
| Real Estate Taxes                           | 15,000     | 0          |
| Startup Costs                               | 20,000     | 0          |
| Miscellaneous                               | 10,000     | 0          |
| Loan Financing Costs - Legal, Escrow, Title | 20,000     | 0          |
| Loan Fees                                   | 180,647    | 0          |
| Appraisal                                   | 10,000     | 0          |
| Interest - Construction Loan                | 1,724,431  | 0          |
| Interest Reserve                            | 3          | 0          |
| Income Offset                               | (654,540)  | 0          |
| Bank Inspection                             | 12,000     | 0          |
| Interest - Predevelopment Loan              | 48,031     | 0          |
| Soft Cost Contingency                       | 249,250    | 0          |
| Subtotal Soft Costs                         | 6,862,889  | 4,680,000  |
| Subtotal Uses of Funds                      | 31,635,343 | 29,432,454 |

### Operating Proforma

| Income                                    | Year:   | 2012      |
|---|---------|-----------|
|   | Year #: | 1         |
| Residential Rent Income (Market Rate)     |         | 1,138,916 |
| Residential Rent Income (Affordable Rate) |         | 890,854   |
| Commercial Rent Income                    |         | 356,640   |
| Parking Income                            |         | 0         |
| Storage Income                            |         | 0         |
| Commercial NNN Reimbursement              |         | 0         |
| Utility Reimbursement                     |         | 85,670    |
| Non-refundable Fees                       |         | 17,445    |
| Pet Fees                                  |         | 3,827     |
| Miscellaneous                             |         | 6,359     |
| Less: Residential Vacancy                 | 3%      | (60,893)  |
| Less: Commercial Vacancy                  | 0%      | 0         |
| Effective Gross Income                    |         | 2,438,818 |

| Expenses                               | Year:   | 2012      |
|--|---------|-----------|
|  | Year #: | 1         |
| Wages                                  |         | 76,309    |
| Insurance                              |         | 30,142    |
| Utilities                              |         | 107,088   |
| Janitorial                             |         | 38,155    |
| Maintenance                            |         | 63,337    |
| Services                               |         | 31,796    |
| Professional Management Fees           | 4%      | 97,553    |
| Administrative                         |         | 19,586    |
| Property taxes                         |         | 0         |
| Advertising                            |         | 40,190    |
| Turnover                               |         | 20,604    |
| LID (20 year term, with 11 years left) |         | 166,667   |
| Miscellaneous                          |         | 14,753    |
| Total Expenses                         |         | 706,180   |
| Net Operating Income                   |         | 1,732,638 |

### Sources & Returns

| Amount     | Return / Interest | Description   |
|------------|-------------------|---|
| 8,567,150  | 10.4%             | Market rate for-profit equity investment                                  |
| 5,003,517  | n/a               | 20% of HRTC Eligible Basis sold at \$0.85 of equity per \$1 of tax credit |
| 18,064,675 | 6.0%              | Conventional debt - construction loan replaced by a permanent loan        |
| 31,635,343 |                   | Subtotal Sources of Funds   |