



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

FROM: Matthew R. Walsh, Deputy City Manager - Development

DATE: August 7, 2023

SUBJECT: Supplemental Report:
Application for RSA 79-E Community Revitalization Tax Relief Incentives
First Church Holdings, LLC
177 North Main Street

RECOMMENDATION

Accept this report and substitute the attached resolution for public hearing on August 14, 2023. Due to the reduction of dwelling units from 33 to 30, coupled with revisions to project costs and other details associated therewith, the attached substitute resolution has been provided for public hearing and City Council vote.

BACKGROUND

On May 30, 2023, First Church Holdings L.L.C. (Developer) applied for RSA 79-E Community Revitalization Tax Relief Incentive benefits to support redevelopment of property located at 177 North Main Street into 34 units of market rate housing.

Subsequent to this application, the Developer revised its plans and increased the number of units from 33 to 34 units and commenced the development permitting process. Said process included applying for several variances to support the Developer's proposed redevelopment of the property.

On July 5, 2023 the Zoning Board of Adjustment (ZBA) held a public hearing on the Developer's variance applications. The ZBA denied the Developer's application relative to density variance for 34 dwelling units, and tabled the balance of the Developer's variance requests.

Following the July 5, 2023 ZBA hearing, the Developer re-worked its proposed redevelopment plan and reapplied to the ZBA for a density variance to permit 30 dwelling units at the property. Said application was heard and approved by the ZBA on August 2, 2023.

The Developer is now preparing to move forward with the Planning Board Site Plan Review process, with the expectation of starting construction this fall.

DISCUSSION

- 1) Revisions to RSA 79-E Application: Due to the reduction of total dwelling units from 33 to 30, the Developer has revised its RSA 79-E application accordingly. Revisions include an updated project budget and financial pro formas, as well as revised design plans. Revised site plans and floor plans for the project are attached.

Table 1 below compares key details of the Developer’s original and revised projects.

Table 1: Summary of Original and Revised Project Details and RSA 79-E Applications

	<u>Original Application</u>	<u>Revised Application</u>	<u>Change (Revised - Original)</u>
<u>Total Dwelling Units</u>			
Studio	4	0	-4
1 Bedroom	20	17	-3
2 Bedrooms	7	12	5
3 Bedrooms	2	1	-1
<u>Subtotal</u>	<u>33</u>	<u>30</u>	<u>-3</u>
<u>Budget</u>			
Purchase Price	\$ 770,000	\$ 675,000	\$ (95,000)
Soft Costs (Design, Permitting, Carrying Costs, Fees, Etc.)	\$ 550,000	\$ 561,000	\$ 11,000
Hard Costs (Construction)	\$ 4,345,000	\$ 4,187,500	\$ (157,500)
Contingency	\$ 400,000	\$ 400,000	\$ -
<u>Subtotal</u>	<u>\$ 6,065,000</u>	<u>\$ 5,823,500</u>	<u>\$ (241,500)</u>
<u>Number of RSA 79-E Benefit Years</u>			
Requested by Developer	<u>7</u>	<u>7</u>	<u>0</u>
Recommended by Staff	<u>7</u>	<u>7</u>	<u>0</u>
<u>Assessed Value</u>			
Base Value (Pre-Renovation)	\$ 1,205,500	\$ 1,205,500	\$ -
Completed Project (Post Renovation)	\$ 3,249,800	\$ 2,912,200	\$ (337,600)
<u>Projected Total Project Tax Benefit to Developer</u>	<u>\$ 471,231</u>	<u>\$ 393,411</u>	<u>\$ (77,820)</u>
<u>Debt Service Coverage Ratio (10 Year Average)</u>			
<u>10-Year Average</u>			
Without RSA 79-E	1.02	1.12	0.10
With RSA 79-E	1.18	1.21	0.03
<u>7-Year 79-E Benefit Period</u>			
Without RSA 79-E	1.03	1.09	0.06
With RSA 79-E	1.18	1.21	0.03

- 2) Eligibility Criteria: The revised 30-unit project continues to satisfy basic eligibility for the RSA 79-E program as set forth in the June 28, 2023 staff report.
- 3) Public Benefit: The revised 30-unit project continues to satisfy “public benefit” criteria as set forth in RSA 79-E:7, as discussed in the June 28, 2023 staff report, and therefore remains eligible for RSA 79-E benefits.
- 4) Projected Assessed Value and Property Tax Savings to Applicant: Please see Table 1 above, which summarizes this information. An updated detailed projection of total property tax benefits (savings) that may accrue to the Developer for the revised 30-unit development project is also attached.
- 5) Statement of Financial Need for RSA 79-E Benefits: The Developer has provided updated financial pro formas for the revised project. Said pro formas model revenues and expenditures for the project over a 10-year period with and without RSA 79-E benefits. The pro formas are proprietary and not subject to public disclosure.

As noted in the June 28, 2023 staff report, the applicant is seeking RSA 79-E to make the project financially viable. Economic challenges negatively impacting the project include historically high costs of construction and rising interest rates (and, in turn, debt service payments). In tandem, these circumstances impact the project’s ability to achieve debt service coverage ratios (DSCR) customarily required by lenders for real estate projects.

Like the Developer’s original 33-unit proposal, the revised pro formas demonstrate that without RSA 79-E benefits, the project will not achieve the minimum debt service coverage ratios (DSCR) customarily required for real estate development projects by commercial lenders.

DSCR are a measure of a project’s cash flow and ability to pay debt service. It is calculated by taking net operating income and dividing it by annual debt service costs. It is customary for commercial bankers – including the applicant’s lender – to require a project to achieve a minimum DSCR of approximately 1.2 annually for a project to be financially viable.

Please see the Table 1 above which summarizes DSCR for the revised 30-unit project, as well as the Developer’s original 33-unit application.

As was the case when the project originally featured 33 units, without RSA 79-E, the applicant’s project will not satisfy its lender’s DSCR requirements, and, therefore, will be unable to secure financing. Without financing, the project will be unable to move forward. Please see the comparison table above for more information.

The applicant has stated that its financing commitment is contingent upon receiving RSA 79-E benefits for the project.

SUMMARY:

In conclusion, staff offers the following:

1. The revised application appears to satisfy all statutory requirements within RSA 79-E.

2. The revised project continues to satisfy all five public benefit requirements as established in the Statute. (To be eligible, the project only needs to satisfy one of the five criteria).
3. The property is historically significant. It has been determined potentially eligible for the National Register of Historic Places. The developer's project will preserve and renovate the existing structure at the property.
4. The estimated total cost of the developer's revised 30-unit project, including acquisition, is \$5,823,500.
5. The revised project will create 30-units of market rate rental housing in Downtown Concord, thereby helping to expand the City's housing stock, as well as support the vitality of Downtown Concord. Housing vacancy rates in the City is approximately 0.4% (NH Housing Finance Authority 2022). Typically, a 5% vacancy rate is considered a "balanced" housing market.
6. The property is currently tax exempt. Upon acquisition by the developer, the property will become taxable. During the seven-year RSA 79-E benefit period, the property will have a "base" assessed value of \$1,205,000 and generate \$31,310 annually (2022 tax rate of \$25.89 / \$1,000). Following the conclusion of the RSA 79-E benefit period, the assessed value of the 30-unit development is projected to be \$2,912,200, and the property will generate approximately \$98,374 (projected 2031 tax rate of \$33.78).
7. The developer's pro forma demonstrates that the project will not achieve the Debt Service Coverage Ratios required to make the project viable for commercial financing. Without commercial financing, the project is unable to move forward.