

**CONFIDENTIAL – CLOSED CITY COUNCIL SESSION –
SEALED PROPOSAL UNDER NEGOTIATION**

DATE: 21 February 2017

TO: Members of the City Council of Richmond Heights

RE: Request for Blighting and Tax PILOT under Missouri Statute Chapter 353

Over the past month the development team has met with the Mayor and City Manager to discuss a gap in financing that has arisen which has slowed down our progress with our lender arising from the property appraisal. During the development plan approval process we assumed an annual real estate tax bill of \$276,000 on the stabilized property based on discussions with City Administration. The City provided validation through a third party consultant who evaluated with EVO/Manhasset. As a follow-up we recently researched the real estate tax history of nine other comparable apartment developments. We have attached this table for review.

A standard in the apartment industry is for real estate taxes to be equal to one month's rent. The appraisal from the lender provided a tax bill of over \$427,000, which equates to 1.5 months of rent. The large difference in taxes is creating a \$2.5MM gap in financing challenging the development's progress. Our solution that will allow us to move forward on the project right away and eliminate this risk is that we are willing to pay our fair share of taxes to the City, County, and School District and are asking for a cap of \$276,000 over the first 10 years after the completed project is passed through a redevelopment corporation. Note that this is a substantial increase in tax revenue from the current taxes of approximately \$11,600. We believe this to be a sensible approach as it:

1. Reflects what the City expected to collect on the project on a per unit basis
2. The number is fair while protecting against an assessment that prevents the project from moving forward.

Chapter 353 of the Missouri Statutes can be used to establish such a cap on real estate taxes. Use of Chapter 353 would require a finding that 1301 to 1325 Boland Place are blighted.

ESTABLISHMENT OF BLIGHT

The property, which includes a former Pentecostal church and the West Richmond School, has been under-utilized or abandoned since 2007. The property is frequent target of vandals and is repeatedly broken into with evidence small fires and graffiti rampant. Since acquiring the property in August 2016 the developer has taken numerous steps to secure the property and as a final measure after repeated break-

ins boarded up most of the property. Nuisance crime is regularly reported by Richmond Heights Police Department.

The buildings are functionally obsolete and are not in a suitable condition for repurposing. Three developers prior to us tried to repurpose the buildings before they deteriorated, but without success as the economics of investment were not justified. The three course masonry school building has been unconditioned for years, the roof leaking for a half dozen years, and has been through numerous freeze/thaw cycles which have made the masonry subject to leaking. There is significant presence lead and asbestos, and very high levels of mold. Estimates are several hundred thousand dollars to remediate and abate the hazardous materials.

Currently the property pays taxes totaling \$11,600 per year, as most of it has been off the tax rolls for decades because of not-for-profit ownership.

CURRENT FINANCING GAP

The required project equity is in place and we are in the process of securing the loan. The appraisal obtained by the lender has the real estate taxes estimated 60% greater than developer underwriting in consultation with the City during due diligence. The City Administration and the development team looked at the tax projections for EVO/Manhasset and current taxes on Boulevard residential and came up with a tax projection of \$300,553 based on 203 apartments or \$1481 per unit, which on 187 apartments translates to \$276,000.

All full paying tax comps cited by lender are in University City, Creve Coeur, and Clayton. Properties in Richmond Heights, Brentwood and Maplewood have all received full tax abatement and/or TIF, leaving no comps available to correctly assess the taxes. In this situation the appraiser has taken the most conservative approach and set tax projections at a very high level.

PROPOSED SOLUTION

Utilize Chapter 353 to blight the property and establish a cap on future real estate taxes for ten years at \$276,000 commencing once the project passes through the Chapter 353 redevelopment corporation.

Robert Goltermann, President
314-267-7497
rgoltermann@dcmsl.com



DCM Group
Commercial Real Estate Services
8300 Eager Road, Suite 604
St. Louis, MO 63144
314-727-9300
www.dcmsl.com

Comparable Property Assessment and Tax History Report
Subject Property: 1313-1319 Bolland, Richmond Heights, MO 63117

PROPERTY NAME	ADDRESS	OWNER	Year Built	Number of Units	2011 Appraisal Assessment	2013 Appraisal Assessment	2015 Appraisal Assessment	2016 Appraisal Assessment	Tax Incentive Status	Taxes per # Unit 2012	Taxes per # Unit 2013	Taxes per # Unit 2014	Taxes per # Unit 2015	Taxes per # Unit 2016
Villas at Brentwood	1800 S Brentwood Blvd St. Louis, MO 63144	Villas at Brentwood LP	2003	326	5,465,000 519,175	5,787,900 549,860	5,645,600 1,072,660		abatement	108.34	131.88	132.05	128.32	129.26
Vanguard Crossing	8324 Delcrest Drive University City, MO 63124	Delcrest Improvement Corporation	2014	204	1,200,000 228,000	1,016,700 193,170	2,103,200 399,610		abatement	90.54	82.44	83.082	168.85	168.34
Clayton on the Park	8025 Bonhomme Ave Clayton, MO 63105	COTP LLC	2000 converted 2012	206	2,4720,000 4,696,800	24,216,100 4,600,490	30,200,000 5,738,000			1,681.78	1,7631.50	1,775.25	2,119.13	2,105.73
Mansions on the Plaza	8300 Delmar University City, MO 63124	Mansions on the Plaza LP	2004	92	6,500,000 1,235,000	5,618,800 1,596,000	22,500,000 4,275,000			1,087.55	1,509.12	1,522.09	4,005.30	3,993.40
EVO Living (former Manhasset Village)	9015 Eager Road, Richmond Heights, MO 63144	My One LLC	2016	Under Construction				2,050,300 389,560 LAND ONLY	abatement 70% of appraisal capped \$5MM					
Kings Landing	618 North New Ballas Creve Coeur, MO 63141	Kings Landing LLC	2006	152	14,773,000 3,075,370	14,458,000 3,003,830	14,458,000 3,003,830	14,458,000 3,003,830		1,591.46	1,661.83	1,720.94	1,752.33	1,713.41
Vanguard Heights	10362 Old Olive Street Rd. Creve Coeur, MO 63141	Vanguard CC Apartments	2016	Under Construction				1,568,600 501,950 LAND ONLY						
Cortona at Forest Park	5800 Highlands Plaza Drive St. Louis, MO 63110	BIT Highland Park Apartments LLC	2014	280			1,836,100 348,860	1,836,100 348,860	abatement			94.5	94.56	104.43
Aventura Forest Park	4431 Chouteau Ave St. Louis, MO 63110	Aventura at Forest Park LLC	2013	156			800,200 152,040	800,200 152,040	abatement			73.9	73.97	81.69



TAXES AND ASSESSMENT DATA

Assessment and real estate tax information were provided by the St. Louis County administrative offices. In the State of Missouri, residential properties are assessed at 19% of the actual market value with commercial properties being assessed at 32% of the actual market value with real property being assessed every odd numbered year. According to state statute, the market value for tax purposes must be uniform and equitable. Since market value assumes a sale, we have estimated taxes to be based on a blended rate of the tax comparables and our value conclusion. We have not included the historical assessments and real estate taxes due to the subject site being improved with a prior religious and educational use.

Proposed projects are typically taxed based on the actual construction costs during construction and lease-up since the project is not generating any revenue. Once the project becomes stabilized, most taxing jurisdictions value multifamily properties for tax purposes using the income approach to value since apartments are income producing properties. Since capitalization assumes perpetuity, we have estimated real estate taxes at stabilization to be based on other comparable properties in the St. Louis County.

Due to varying mill levies within the county and several recently constructed projects receiving economic incentives, we have analyzed the properties based on the per unit value instead of taxes per unit. Assessments for comparable St. Louis County properties are summarized in the following table excluding any special assessments.

Name	Units	Year Built	Implied Market Value	Value / Unit	Assessed Value	Rating
Subject	187	2016	\$32,725,000	\$175,000	\$6,217,750	
Mansions on the Plaza	92	2004	\$22,500,000	\$244,565	\$4,275,000	Superior
Allegra on the Boulevard	74	2005	\$8,428,100	\$113,893	\$1,601,339	Inferior
King's Landing	152	2006	\$12,482,500	\$82,122	\$2,371,675	Inferior
Vanguard Crossing	200	2013	\$31,992,200	\$159,961	\$6,078,518	Superior
Clayton on the Park	206	2000 / 2008 / 2012	\$30,200,000	\$146,602	\$5,738,000	Superior
Average	145	2007	\$21,120,560	\$149,429	\$4,012,906	

The tax comparables range from \$82,122 to \$244,565 per unit with an average of \$149,429 per unit. The comparables have a wide range of value for tax purposes and are not representative of the actual market value. The subject will be inferior to Comparables 1, 4, and 5 and superior to Comparables 2 and 3. Based on the proposed construction, good quality, and the tax comparables, our estimate of real estate taxes for the subject is \$2,288 per unit or \$427,781. Our estimate of real estate taxes is based on a per unit value of \$140,000 and a mill levy of 86.00000, which is slightly higher than the 2015 mill levy to account for its upwards trend. The following table summarizes our stabilized projection.

Address	Units	Implied Market Value	Market Value per Unit	Mill Levy	Total Taxes	Taxes per Unit
Subject	187	\$26,180,000	\$140,000	86.000000	\$427,781	\$2,288