

DATE: January 13, 2015

ITEM: 9.A.

RE: CONSIDERATION AND APPROVAL OF A BUILDING
RENOVATION LOAN REQUESTED BY TELEGRAPH EXCHANGE,
LLC

PROJECT AREA: Central Business District

PREPARED BY: Matt Dahl

EXECUTIVE SUMMARY: Micah Peters and James Chellis (the “Applicants”), the managing members of Telegraph Exchange LLC, were approved for a \$3,000,000 Building Renovation Loan (the “Loan”) by the RDA Board in November 2014. The loan will be used to renovate the Westgate Business Center located at 180 South 300 West (the “Property”) in the Central Business District Project Area. Subsequent to that approval, the Applicants requested a change to the terms that would allow them to borrow up to an additional \$300,000 from their primary lender, which would be secured by the senior lien on the Property. The increase in the primary lender’s loan amount is not the result of an increase in the total project cost, but rather would allow the developer to reduce their equity contribution. The following is the financial analysis of the requested change if the developer borrows the maximum amount allowed from the primary lender:

- The Applicants’ equity contribution would be reduced from \$2,987,452 to \$2,687,452, resulting in a total equity contribution of 26% of the total project cost.
- The Loan to Value Ratio (LTV) would increase from 47% to 49%. The maximum LTV allowed under the RDA’s Building Renovation Loan Program is 95%.

The proposed terms and conditions of the Building Renovation Loan are included in the attached Loan Committee Memo. The proposed increase in overall LTV Ratio is justifiable given that it complies with RDA loan program terms.

LOAN COMMITTEE RECCOMENDATION: The Loan Committee unanimously recommended the approval of the Applicants’ loan request.

ALTERNATIVES:

- 1) Pass a motion approving the \$3,000,000 loan request with the terms proposed in the attached memo.
- 2) Pass a motion approving the \$3,000,000 loan request with modifications to the terms proposed in the attached memo.
- 3) Do not approve the loan request.

FUNDING: Revolving Loan Fund

ATTACHMENTS:

1. Loan Committee Memorandum
2. Site Map

LOAN COMMITTEE MEMORANDUM

Date: January 5, 2015

Applicant: *Telegraph Exchange LLC*

Business Location: 752 E. Northcrest Dr.
Salt Lake City, UT 84103

Company Established: 2011

Business Owners: *Micah Peters & James Chellis*

Guarantors: *Micah Peters & James Chellis*

1 DEVELOPMENT SUMMARY

Micah Peters and James Chellis (the "Applicants"), the managing members of Telegraph Exchange LLC, are requesting a \$3,000,000 Building Renovation Loan (the "Loan") to renovate the Westgate Business Center located at 180 South 300 West (the "Property") in the Central Business District Project Area.

The Applicants have been active developers in Downtown Salt Lake City for three years. Utilizing several different entities they have acquired and completed the Broadway Park Lofts, been selected by the RDA to develop a residential project in the West Capitol Hill Project Area, and acquired several other prominent properties for future development.

The Property is currently a 4-story, 73,000 square foot brick office building, with 95 office suites. The Applicants intends to convert the Property into 38 residential lofts and adapt the basement into a 43 stall parking garage. The Applicants has designed the project to achieve LEED GOLD Certification.

The 38 residential units will be available in the following configurations.

- 13 – 1-Bedroom units with a size range of 764 - 1,073 s.f.
- 17 – 2-Bedroom units with a size range of 1,268-1,678 s.f.
- 4 – 2+Bedroom units that are 1,720 s.f.
- 4 – 3-Bedroom units with a size range of 2,217-2,726 s.f.

The residential units will include high quality interior materials, the addition of roof top decks and balconies, additional glazing to provide more light, and the installation of new and efficient mechanical systems.

The building’s south façade will be rehabilitated with its original aesthetics preserved. The building’s east façade will receive a modern skin with new protruding “box” structures that will provide relief and depth. The most significant change will to the exterior will be the addition of an additional floor that is intended to provide rooftop penthouses and patios.

2 PROPOSED LOAN

Loan Amount: \$3,000,000

Loan Terms: The proposed loan would have the standard Building Renovation Loan term of 10 years. The interest rate would be the standard 3% with a 14% default rate. The Loan would be repaid with proceeds from the sale of the lofts/condos. The RDA will receive 95% of the sales proceeds from the sale of each unit after the primary lender has been repaid.

Sources & Uses Statement		
Sources		
	Amount	% of Total
Applicant's Equity	\$2,687,452	26%
Primary Lender	\$4,800,000	46%
RDA Renovation Loan	\$3,000,000	29%
Total Capitalization	\$10,487,452	
Uses		
	Amount	% of Total
Real Property Acquisition	\$2,670,000	25%
Soft Costs	\$824,000	8%
Building Renovation	\$6,535,936	62%
Contingency	\$457,516	4%
Total Development Cost	\$10,487,452	

3 ABILITY TO REPAY RDA LOAN

The Applicants have demonstrated through the marketing plan and recent development experience with a similar product that there is a strong likelihood that they will be able to repay the RDA’s loan. The Development has a proposed average square foot price of \$310, which places it at the high end of the downtown market, but directly in line with the Applicants’ recently completed Broadway Park Lofts development. The Broadway Park Lofts are located one block south of the Property and have had strong sales in 2014. At the proposed sale prices the project is anticipated to generate of profit of \$4,061,641. The units only need to sell for \$144 per square foot to repay the senior lender and the RDA. Given these factors it seems likely that the Applicants will be able to repay the RDA’s loan through the sale of the residential units. The

RDA's loan would also be secured by personal guarantees support by substantial net worth if the sale of the units is insufficient.

A. Ratio Analysis

Overview:

Primary Lender Loan Amount	\$4,800,000
RDA Loan Amount	\$3,000,000
Applicant Equity	\$2,687,452
Projected Total Unit Sale Price (minus closing costs)	\$15,572,813
Appraised Value	\$15,800,000
Loan-to-Value Ratio* (LTV)	49%

Criteria is 95% LTV minimum

B. Collateral

The RDA would have a junior lien position on the Property. If this loan request is approved, staff will negotiate a subordination agreement with the senior lender.

4 MARKETING PLAN AND EXPERIENCE

The Applicants have recently completed the construction of the Broadway Park Lofts (BPL). BPL was a stalled vertical mixed use development that been foreclosed on and sat empty for years. The Applicants acquired the project and completed construction in 12 months. Since completing the project, the Applicants have sold 23 units at BPL with an average sale price of \$332 per square foot. The Applicants have sold the units in small groupings, rather than putting the whole project on the market. They intend to use the same method with the Utility Lofts, as well as the same methods of marketing that have been successful at BPL. Marketing efforts would include the use of the Clearwater website, social media, print advertisements, and a traditional model unit. Additionally, there will be a licensed sales representative onsite and the applicants will offer a 3% buyer agent commission. Given the strong sales that the Applicants have achieved with a product type and location similar to the Utility Lofts, staff feels the proposed marketing plan will be sufficient to achieve required sales numbers.

5 PROJECT AREA GOALS

This development does not address any of the projects identified in the 2014-2015 Central Business District Strategy.

The development does address the following objectives of the Building Renovation Loan Program:

- Convert upper floors of commercial buildings, which are vacant and unused into a residential use.
- Bring major systems of the building into compliance with current code.
- Repair or replace HVAC, electrical, mechanical, and plumbing systems.

The project will also provide the following public benefits:

- Provides new housing stock downtown.
- The project will provide a model of sustainable downtown development.
- The project will likely result in an increase in the value of the Utah Paperbox property, which is an RDA-owned parcel adjacent to the Property.
- The project will contribute a significant public investment in downtown.
- The project will generate positive activity in neighborhood that is currently impacted by criminal activity.
- The negotiated terms should improve the development potential of the Utah Paperbox by establishing an easement between the RDA and Applicant-owned properties.
- The RDA's participation in the project will result in the Property's east parking lot being developed, rather than remaining a surface lot.

6 PERSONAL/CORPORATE FINANCIAL INFORMATION

A. Personal Financials

The personal financial information provided for the applicants indicate that they are in a strong financial situation and are credit worthy.

C. Corporate Financials

Telegraph Exchange LLC is a land development entity that has over \$4,000,000 in land holdings, but has limited income while development projects are in pre-development or construction phases.

In addition to a corporate guarantee from Telegraph Exchange LLC, the RDA would also require a corporate guarantee from Clearwater Homes, LLC as a condition of the Loan.

RECOMMENDATION:

If the Loan is approved, Staff recommends the following conditions be addressed prior to closing:

Standard Terms:

1. Staff would have determined that the Loan meets all lending criteria established by the RDA and the RDA's Loan Committee.
2. James Chellis and Micah Peters shall provide personal guaranties with terms approved by the RDA's legal counsel.
3. Telegraph Exchange LLC shall provide a corporate guarantee with terms approved by the RDA's legal counsel.
4. The RDA shall approve a copy of the development's Covenants, Conditions, and Restrictions.
5. The execution of loan documents (e.g. promissory notes, loan agreements, security documents, and guarantees) as deemed necessary by the RDA and its legal counsel.
6. The Applicants shall provide evidence of insurance covering public liability, fire, and such other insurance in such amounts and with such coverage as deemed necessary by the RDA for the Property.
7. The RDA and its legal counsel's review and approval of all matters pertaining to title, legality of the Loan, and the legality, sufficiency, and the form and substance of all documents that are deemed reasonably necessary for the loan transaction.
8. Borrower shall pay closing costs, including the RDA's legal fees. Borrower may use loan proceeds to pay closing costs not to exceed \$10,000.
9. The Applicants must provide Contractor Agreement for RDA approval.
10. Applicants must provide RDA with a copy of the building permit.
11. The Applicant must receive all necessary approvals from the City, as further defined in the loan agreement.
12. Such other terms as recommended by the RDA's legal counsel.

Project Specific Terms:

1. The RDA's lien securing its loan shall only be subordinate to a senior lien securing a loan for \$4.5 million or less from the primary lender or another RDA approved lender,
2. Prior to closing the RDA and the Applicants shall enter into an agreement that defines the terms of an easement where the RDA and the Applicants have adjoining property lines.

These agreements shall include the following:

- a. The boundaries of the easements.
 - b. Indication that the easement shall be used for auto and pedestrian ingress and egress for RDA and Applicant-owned Properties.
 - c. Identification of access issues and terms for how to address them.
 - d. Indication that the easement shall be open to limited public use.
 - e. Establishment of parameters for constructing improvements in the easements. This shall include the right for the RDA, or an RDA designee, to design and construct improvements within the easements.
 - f. Specification of how current and future improvements within the easement will be maintained.
3. The Developer shall agree as a condition of the loan to subdivide the Property into two parcels. Parcel 1 shall include the Paragon Lofts and extend approximately 20 feet east from building's east edge. Parcel 2 shall include the remainder of the Property and be primarily comprised of the Property's east parking lot. The subdivision must occur prior to the sale of the first residential unit. Parcel 1 and 2 shall collateralize the RDA Loan if it is approved.
4. The Developer shall agree to build a new building on Parcel 2 that addresses and activates the corner of 300 West and 200 South. The following terms shall also be required with regard to the development of Parcel 2:
- a. The building must have a minimum footprint of 20 feet by 40 feet.
 - b. If the building, or buildings, constructed on Parcel 2 do not occupy the entirety of Parcel 2's east property line, a trellis or other canopy type improvement shall be constructed along the unoccupied property line. The RDA shall be consulted on the design of the trellis.
 - c. The Developer must commence construction within 3 years of closing on the RDA Loan (Construction Commencement Date).
 - d. The Developer shall provide the RDA with an option to acquire Parcel 2 that can be exercised if the Developer has not commenced construction by the Construction Commencement Date. The RDA's option to acquire the Property shall expire 18 months after the Construction Commencement Date if it has not been exercised. The option shall be the sole remedy for default on the Parcel 2 development requirements. The option will be recorded and run with the land. If the RDA exercises the option the RDA will not be able to construct a building that exceeds 12 feet in height.
5. The RDA shall agree to provide the Applicant 1 parking stall on the Paperbox Property for every code required parking stall that is affected by the construction of new buildings on Parcel 2. The number of stalls provided on the Paperbox Property may change if the number of parking stalls required by code is reduced.
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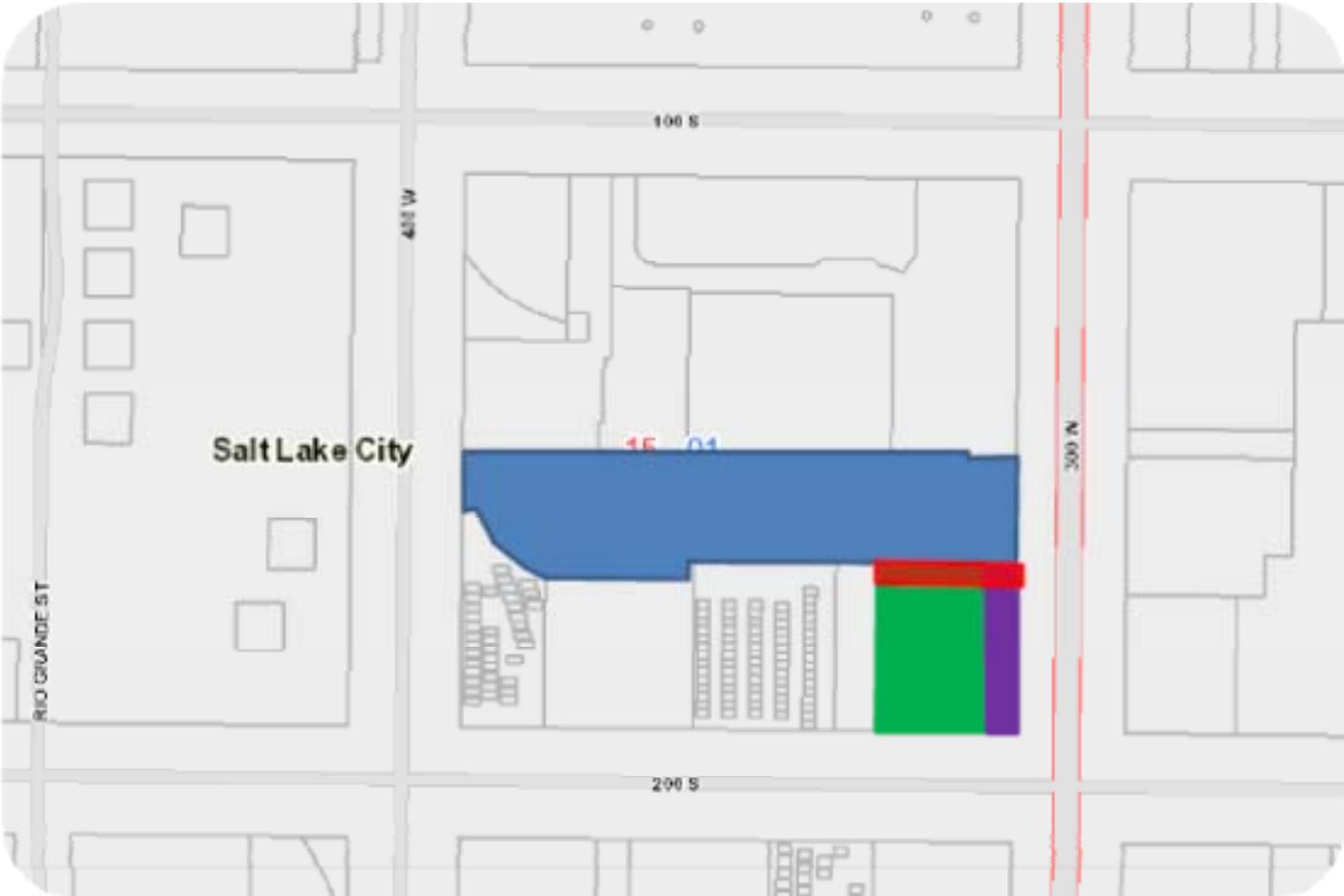
6. The RDA shall lease the Paperbox Property to the Applicants for a term of two years. After the first year the RDA will be able to terminate the lease upon the sale of the Paperbox Property and a minimum 30 days notice prior to closing.
7. The Developer shall provide a signed statement from an architect verifying that the design of the Paragon Lofts would achieve sufficient points to achieve LEED Gold Certification.

The Applicants would have 120 days following the approval to close or the RDA's approval shall expire. Any funds not disbursed 18 months after closing would be used to pay all outstanding interest and principal from the RDA 's loan.

ATTACHMENTS:

1. Parcel Map

Parcel Map



- RDA-Owned Property
- Parcel 1
- Parcel 2
- Easement