City of Chicago
Department of Housing and Economic Development

STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
OCTOBER 11, 2011

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name:	Renaissance at Beverly
Applicant Name:	MGM/TGI 105th Street LLC
Project Address:	105th-107th Vincennes Avenue
Ward and Alderman:	21, Ald. Howard Brookins
Community Area:	Washington Heights
Redevelopment Project Area:	105th/Vincennes
Requested Action:	TIF Developer Designation
Proposed Project:	The project will provide 108 housing units of which at least 22 units or 20% percent will be affordable for households earning no more than 100% percent of the area median income.
TIF Assistance:	$11,700,000

II. PROPERTY DESCRIPTION

Address:	105th / Vincennes Avenue
Location:	105th – 107th, Vincennes Avenue on the west, Dan Ryan Expressway on the east
Tax Parcel Numbers:	See attachments

Land Area:	14.53 acres
Current Use:	Land has been cleared for new construction, some infrastructure is in place, eight homes are occupied, another 18 homes are under various states of construction.
Current Zoning:	PD
Proposed Zoning:	PD will remain in place.
Environmental Condition:	Remediation has been done.

III. BACKGROUND:

This development was the subject of a CDC action in October, 2005. The development plan called for 172 units to be built as Phase 1 and 61 units as Phase 2. The Phase 1 units are the focus of this issue. A RDA was executed with MGM in October, 2006, but extraordinary demolition, site work and environmental remediation delays resulted in no homes being sold until late 2008, just as the housing market was collapsing.
The original budget for the 172 unit Phase 1 was $58M. The developers are proposing that Phase I be redefined as 108 units, with a budget of $48M, which includes increased interest costs and environmental work that was not originally contemplated. Of the 108 units, 18 are partially constructed; a separate development loan was used to finance those units; that lender has since sold the loan and 18 units to a separate developer, OAKK development. The TIF assistance will be increased from $9.25M to $11.7M.

The land was formerly a Chicago Bridge and Iron Works industrial property, a steel fabricating pant that moved its operations out of the City in 1976. The land was vacant from that time until this development. The City created this TIF in 2001 after another developer MGM purchased the site The site was vacant and unused when it was purchased. Extensive remediation was done on the site upon purchase by in 2005; however the current developer still had to perform extensive removal of urban fill and massive concrete foundations in multiple location around the site also had to be removed in order to make the site buildable. The extent of the environmental work was unanticipated by MGM and far exceeded the estimates in the budget.

IV. PROPOSED DEVELOPMENT TEAM

Development Entity:

MGM/TGI 105th Street LLC is a Manager-Managed company organized under the laws of the State of Illinois, with 50% ownership by The Terrell Group, Inc and 50% ownership by MGM Urban Properties, Inc.. The managers of the company are Patrick Terrell and John J. Mayher, Jr. Mr. Terrell is the sole shareholder of The Terrell Group, Inc and Mr. Mayher is the sole shareholder of MGM Urban Properties. Together these companies have over 40 years in real estate development experience and a portfolio of homes built in Orland Park, Chicago and North Carolina.

The Terrell Group was incorporated in Illinois in 2004 as a Residential Construction firm, by former University of Notre Dame and NFL football player, Mr. Patrick Terrell. The Terrell Group has been involved in numerous housing development and construction projects throughout the Chicago region.

Mr. Mayher has been in the residential home building and development business for over 30 years, and has extensive experience in infill residential development to major housing developments, commercial office space, industrial sites and the construction of a state-of-the-art climate controlled storage facility.

Consultants: The development team is acting as its own general contractor. Architectural services were provided by XXX. Johnson Research was hired by Bridgeview Bank as the TIF consultant. A realtor for the to be constructed homes has not been designated yet.

V. PROPOSED PROJECT

Project Overview: The Developer is proposing to finish the project which was begun several years ago. The revised project will be comprised of 108 units total: 8 units completed and sold by the development team, all currently occupied; 82 units to be built on vacant lots within the development; and 18 units, previously started by the developer and financed by a different lender. The loan was recalled and the partially completed units were transferred back to the lender, First Bankreturned partially developed units were purchased from the bank by another development entity, OAKK Development, who is in the process of completing and selling the units. OAKK will not be a party to this agreement. A site plan, floor plans and elevation are provided as exhibits to this report.

In short, an Amendment and Restatement of the Redevelopment Agreement is proposed. Modifications to the scope include:

- reduction of the initial scope to 108 total units;

- addition of new affordable model oriented to seniors which includes a first floor master bedroom; and
- modification of the project completion schedule to allow the project to be built out through 2017, if necessary,

Residential Unit Profile: The following tables provide detailed descriptions of the market-rate and affordable components of the proposed project. The subject property will provide a total of 108 housing units of which 22 units or 20 percent will be affordable for households earning no more than 100 percent of the area median income. These units will satisfy the Chicago Affordable Requirements Ordinance, which requires 10 percent of the total units to be affordable in projects developed on land sold by the City or 20 percent of the units in projects receiving TIF assistance.

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RESIDENTIAL UNIT MIX AND PRICING

THE RENAISSANCE AT BEVERLY RIDGE

CHICAGO, ILLINOIS

		Original		Current	
Models	**No.**	**S.F.**	**Asking Price**	**S.F.**	**Asking Price**
Regal	3 Br / 1.5 Bth	1,423	$289,990	1,444	$199,000$
Diplomat	3 Br / 2.5 Bth	1,740	$349,990	1,755	$249,000
Monarch	3 or 4 Br / 2.5 Bth	1,983	$349,990		na
Imperial	3 Br / 2.5 Bth	2,179	$379,990		na
Diplomat Deluxe	4 Br / 3.5 Bth	2,207	$364,990	2,419	$329,990
Sovereign	4 or 5 Br / 3.5 Bth	2,270	$399,990		na
Regal Deluxe	4 Br / 2.5 Bth	2,382	$374,990	2,210	$309,990
Colonial	4 Br / 3.5 Bth	2,413	$409,990		na
Majestic	4 Br / 3.5 Bth	2,602	$419,990		na
New Unit (est)	3 Br / 1.5	1,250	na		$179,990

Bth 1,250

Market Rate For-Sale Units

Unit Type	Number	Size-sf	Price*	Price/sf	Total Revenue
Regal; 3 bed, 1.5 bath	23	1,444	$199,990	$138.50	$4,599,770
Diplomat; 3 bed, 2.5 bath	23	1,755	$249,990	$142.44	$5,749,770
Diplomat Deluxe; 4bed, 3.5 bath	10	2,419	$329,990	$136.42	$1,150,000
Regal Deluxe; 4 bed, 2.5 bath	10	2,210	$309,990	$140.27	$3,099,900
New Unit; 3 bed, 1.5 bath	16	1,250	$179,990	$140.19	$2,879,840
Total	**82**	**1,815 avg.**	**$239,380**	**$140.34 avg**	**$19,629,180**

* The price of each market-rate unit includes one two-car garage.

Affordable For-Sale Units (JUST REFERENCE WHICH UNITS ABOVE ARE AFFORDABLE?)

Unit Type	Number	Size-sf	Market Price	Write-Down	Affordable Price*	Price/ sf	Total Revenue
1 bed/1 bath	2	750	$187,500	$37,500	$150,000	$200	$300,000
2 bed/2 bath	3	900-1,100	$202-500-$247,500	$37,500-82,500	$165,000	$165	$495,000
2 bed + den	1	1,000	$230,000	$65,000	$165,000	$165	$165,000
Total	**6**	**917 avg.**	**$213,333 avg.**	**$320,000 total**	**$160,000 avg.**	**$174 avg.**	**$960,000**

* The price of each affordable unit includes one parking space. [*Or* Parking not included.]

Residential Unit Profile: The following table provides a detailed description of the proposed project. The subject property will provide a total of 86 market-rate housing units.

Unit Profile

Unit Type	Number	Size-sf	Price*	Price/sf	Total Revenue
1 bed/1 bath	5	750	$187,500	$250	$937,500
2 bed/2 bath	10	900-1,100	$202,500-$247,500	$225	$2,250,000
2 bed + den	5	1,000	$230,000	$230	$1,150,000
Total	**20**	**938 avg.**	**$216,875 avg.**	**$231 avg.**	**$4,337,500**

* The price of each market-rate unit includes one parking space. [_Or_ Parking not included.]

Environmental Features
The project will feature homes constructed with "green" features, Energy Star appliances, compliance with City landscaping and open space requirements.

VI. FINANCIAL STRUCTURE

The project is a market rate single-family for-sale development. The financing for the deal is a combination of lender financing, provided by Bridgeview Bank, and equity. See exhibits for Bridgeview Bank letter. The TIF assistance is $11.7M, or 24% of the total project budget of $48,860,776. The TIF funds are necessary due to several factors: extraordinary demolition, site work and environmental remediation costs and other delays resulted in no homes being sold until late 2008, just as the housing market was collapsing. The development team would not be able to finish this project without the TIF assistance; the lender will not move forward without a commitment from the City. The drop in market housing values has meant a significant shift from the original development model. The expected rate of return using the prior model was low, but with the lower sales prices it is now lower.

The loans were put on non-performing status and interest ceased accruing in XXXX; the interest accrued prior to the cessation of interest accrual and being surrendered by Bridgeview will be at least $1.8M. The interest that would have accrued since the loan was placed on non-performing status is estimated to be XXX. The bank is willing to write off a significant portion of the loan principal in order to see this project to completion.

The original project pro forma estimated hard construction costs of an average of $97.85 per square foot and an average sales price per square foot of $168.45. The current costs are estimated to be $120 per square foot and the current average sales price per square foot is $144.60.

The City made a determination that it was in the best interests of the community to proceed with amending this RDA in order that the project be completed. DHED felt that the new construction product will lure buyers and act as a stabilizing force in the area. The proximity to the METRA station and the Dan Ryan Expressway will attract homebuyers and is a key asset of this location. There are eight homeowners living in the development who would essentially be abandoned if this project fails completely.

The TIF assistance will be paid from existing increment in the 105th/Vincennes TIF and future increment generated by the project and area-wide 105th/Vincennes TIF funds. The 105th/Vincennes TIF is comprised primarily of parcels within the Project boundaries. There will also be funds ported from the adjacent 119th/I-57 TIF to pay a taxable note.

The TIF assistance will be paid in the following manner:

<u>Payment at Closing of $1,200,000</u> - To be issued upon execution of the Amended and Restated RDA and funded with cash on hand in the 105th & Vincennes TIF Fund. These funds will partially reimburse the developer for the acquisition and site prep costs and infrastructure.

<u>Infrastructure Note - $3,200,000, Taxable</u> - To be issued upon execution of the Amended and Restated RDA and funded with funds ported from the I-57/119th Street TIF District, which is contiguous to the 105th /Vincennes TIF. The interest rate will be capped at 8.5%. . These funds will partially reimburse the developer for the acquisition and site prep costs and infrastructure

<u>Pay-As-You-Go Incremental Property Tax Payments ("**TIF Payments**"), Not to Exceed $7,300,000</u>

- $7,300,000 maximum in payments over the life of the TIF District, to come from 95% of area-wide increment, subject to a reduction of $900,000 in the event a Certificate of Completion for the 18 homes being built and sold by OAKK Development is not issued due to non-compliance with MWBE, prevailing wage or City residency. These payments will commence in 2012, and further annual payments will be subject to construction and home sales benchmarks.

Though it is not expected that the developer will realize much profit, the City will be entitled as a credit an amount equal to 50% of the Excess Profit (as defined below). The credit will be determined and, if applicable, the amount of the applicable assistance will be reduced upon the closing of the final unit. Excess Profit will be calculated in accordance with the following formulas:

Excess Profit = Actual Profit - Threshold Profit
Threshold Profit = 15% Actual Modified Project Costs
Actual Profit = Net Sales Proceeds + TIF Assistance - Actual Modified Project Costs

The following tables identify the sources and uses of funds and the estimated profit.

Sources and Uses of Funds

BOB, CAN WE DISCUSS? PROJECT COSTS INCLUDE: Acquisition, site prep, etc., for whole site, and then construction costs for 8 completed homes, plus 82 to be built homes, plus 18 homes partial construction. However, since bank took over the 18 homes the developer will not see any sales revenue from them; I am thinking how to frame the costs….

Sources	Amount	% of total	
Equity		$1,225,000	25%
Debt (bank name)		$3,675,000	75%
Total Sources		$4,900,000	100%

Uses		Amount	$/sf of Building*
Land Acquisition ($15 per sf of land)		$1,250,000	$41.67 psf
Site Clearance and Preparation		$254,500	$8.48 psf
Hard Costs		$2,400,000	$80.00 psf
Soft Costs			
Architect=s Fee (5% of hard costs)	$120,000		
Loan Origination Fee (1% of loan)	$36,750		
Legal Fees (0.6% of total costs)	$27,500		
Marketing (3.4% of total costs)	$165,000		
Loan Interest (11.2% of total costs)	$550,000		
Other soft costs (2.0% of total costs)	$96,250		
Total Soft Costs (18.2% of total costs)		$995,500	$33.18 psf
Total Uses		$4,900,000	$163.33 psf

*Gross building area is 30,000 square feet

[*include profit table only if a for-sale residential project*]

Profit Analysis

Unit Sales Revenue	
market rate units	$15,549,400
6 affordable units	$4,079,780
Upgrades (5% of market rate sales)	$216,875
Total Gross Unit Sales	$5,904,375

Parking Revenue (included in unit price)	$0	
Total Revenue		$5,904,375
Less: Cost of Sales		
Closing Costs (3% of sales)	$177,131	
Sales Commissions (6% of sales)	$354,262	
Total Cost of Sales		-$531,393
Net Sales Revenue		$5,372,982
Plus: TIF		$0
Net Sales Revenue Including TIF		$5,372,982
Less: Total Project Costs (not including cost of sales)		-$4,900,000
Profit		$472,982
Indicators:		
Profit as Percent of Total Project Costs		9.7%
Profit as Percent of Gross Sales Revenue		8.0%

VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits.

Affordable Housing: The project will provide at least 22new affordable housing units.

Housing for Teachers: The developer has agreed to participate in the Chicago Public Schools= Housing for Teachers initiative.

CPAN: The developer is participating in the the department=s Chicago Partnership for Affordable Neighborhoods.

Property Taxes: The project will expand the tax base because the investment in the property will result in an increase in its assessed value.

Environmental Features: The project will incorporate WORKING ON

Construction Jobs: The project will produce 100 temporary construction jobs.

Affirmative Action: The developer will comply with the requirements of Chicago=s affirmative action ordinance, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). The developer has provided notification of the proposed project, by certified mail, to several associations of minority and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

City Residency: The developer will comply with the requirements of Chicago=s city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman Brookins endorses the project and has provided a letter of support (see exhibits for copy). The project was presented to the community at a meeting held on July 25th, 2011. The homeowners were very happy to hear that progress was taking place.

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located in the 105th/Vincennes Tax Increment Financing Redevelopment Project Area. The proposed project will satisfy the following goals of the area=s redevelopment plan: encouraging a high quality of building design; increasing real estate values; providing quality affordable housing; stimulate private investment. The implementation strategy for achieving the plan=s goals envisions the need to provide TIF financial assistance for the development of residential single family units. The proposed project also conforms to the plan=s land use map, which calls for residential and park space development at the subject site.

X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, HED will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is HED policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action.

XI. RECOMMENDATION

The Department of Housing and Economic Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project=s conformance with the redevelopment area plan, and HED recommends that the CDC recommend to the City Council the designation of MGM/TGI 105th Street LLC as Developer for the development of residential units at 105th – 107th Vincennes Avenue.

EXHIBITS

Redevelopment Area Map
Neighborhood Map or Aerial
Site Plan
Typical Floor Plan
Front Elevation or Rendering
Sample M/WBE Letter
Copies of M/WBE Certified Letter Receipts
Lender=s Letter of Interest
Alderman=s Letter of Support