



TO: Webster Groves Residents and Interested Parties
FROM: Dr. Marie Peoples, City Manager 
DATE: June 18, 2021
RE: Douglass Hill TIF Pro Forma Analysis

The City of Webster Groves is pleased to release the preliminary Pro Forma Analysis of the Douglass Hill Development. This memo and the analysis are resources to help the public contextualize the physical, financial, and community matters surrounding the development and does not include support or opposition to the development. The City Council has not made any decisions related to the proposed development or formalized any aspects of this proposal to date.

BACKGROUND

Since 2018, the City of Webster Groves has been engaged in the Old Webster Redevelopment Project. This project utilized a publicly issued Request for Proposal (RFP) for redevelopment of the area in “Old Webster” bounded by North Rock Hill Road on the west, West Kirkham Avenue on the north, Gore Avenue on the east, and West Pacific Avenue on the south. This RFP process resulted in a single submission that proposed a redevelopment of the whole trace from SG Collaborative. That development potential, called Douglass Hill by the SG Collaborative team, has now submitted zoning change requests to the City. The City Planning Commission is engaging in a months-long public process to make recommendations to the City Council. All the materials for the Douglass Hill development are available online at webstergroves.org/Redevelopment. A conceptual model of the proposal is available for viewing in the City Hall lobby during public business hours.

PUBLIC INFRASTRUCTURE

As part of the extensive development proposal, there is a large public infrastructure consideration for this site. The area of the development includes a steep grade decline (downhill slope) from south to north and settles into the Shady Creek basin and surrounding flood area. This terrain and flood plain consideration make development of the area costlier, time consuming, and with higher risk potential which developers, financiers, and the City must account for. Additionally, the area is currently zoned as industrial and lacks the basic municipal infrastructure (streets, water, and sewers) to support the development. Finally, the land in the area must be acquired by the developer and those costs are high due to the land market conditions of the current economy.

Given these considerations, the developers (SG Collaborative) have proposed a \$319.8 million development which is mostly privately funded, approximately \$35 million of which would potentially be reimbursed through tax increment financing (TIF) from new tax revenues generated within the development. Those TIF funds would be used to reimburse the developer for public infrastructure improvements made by the developer within the development area.

PRO FORMA FINANCIAL ANALYSIS

The attached Pro Forma points out several key indicators for the City and community to consider.

- First, all readers must remember that this analysis is done at a snapshot in time. Current materials and labor costs are at historic levels and have created extraordinary economic challenges for a project of this size. The factors of construction costs, interest rates, market volatility, and economic conditions change over time and may change the financial picture of the development.
- Without the public TIF funding the estimated internal rate of return (IRR) is negative .01%. This means without public aid the project is not feasible. This is often referred to as the “but for” test, meaning but for public assistance the development would not proceed.
- The IRR for the full project is currently estimated at 8.2%, which is lower than the rate that many investors may seek, however is not out-of-line with potential for the project and will likely increase as construction costs fall. For example, in the last thirty days, timber prices have fallen over 40% which will likely drive this IRR higher.
- The inclusion of a Community Improvement District (CID) Sales tax may be implemented to benefit public infrastructure along with providing property tax certainty for owners and lessees in the CID area.

NEW MISSOURI STATE LAW AND TIF LIMITATIONS

Also, of note for the reader is a recent change to Missouri state law relating to TIF funding. After December 31, 2021, new TIF projects cannot be undertaken in a floodplain area. Should the Council elect to move forward with the development, TIF funding is crucial, as noted in the Pro Forma, and will accelerate the timeline for the City’s action on the TIF funding.

CITY CONSIDERATIONS

City officials must work in the fiduciary duty of our City which includes protecting our risks, our public financing, but also maximizing the best and highest use of lands within the City in line with the city’s character and community interest. As such, the continuing process of hearings and potential actions will include discussions on many items, including, but not limited to:

- The Pro Forma notes that the developers will bear costs for any public investments in needed fire apparatus and replacing school district buildings that will need to be relocated.
- Requirements for workforce housing or other affordability options within a development agreement.
- Appropriate street constructions and fire department access.
- Greenspace and walkability factors.
- Traffic planning and density concerns.

It is important to note, that the City will not bear any burdensome financial risk for this project. Should the City Council move forward with this development, the development agreement and considerations of the City’s involvement will be contractually codified with appropriate

safeguards for the public investment. Improvements in infrastructure and other costs to the area will be borne by the developer. Public financing through a TIF will not reduce the City's revenues and will provide for the needed infrastructure improvements.

ABOUT DEVELOPMENT STRATEGIES AND THE PRO FORMA

Development Strategies prepared the preliminary Pro Forma analysis for this project. The City of Webster Groves is a client of Development Strategies and the firm works at the direction of the City. The developer provides no direction or guidance on the analysis produced by the firm for the City. The SG Collaborative provides the City reimbursement for the costs of the Development Strategies report, per standard practice.

Moving forward, there will be much public conversation and opportunity for input. I encourage our city residents, businesses, and agencies to engage fully in this public process on what may be the most significant development in recent years for the City. Please visit webstergroves.org/Redevelopment for information on meetings and various documents on the project.

MEMORANDUM

To: Mayor and City Council, City of Webster Groves

From: Larry Marks & Katie Medlin, Development Strategies

Date: June 18, 2021

Subject: Douglass Hill TIF Pro Forma Analysis DRAFT

EXECUTIVE SUMMARY

SG Collaborative has submitted a preliminary pro forma that shows the impact of TIF incentives on the proposed redevelopment project located adjacent to Downtown Old Webster. This analysis shows that, due to the extraordinarily high cost of construction materials that exist today, the project in today's market conditions is unlikely to be built due to the low returns that would likely be generated by the development, even with TIF assistance. However, if construction costs return to more-normal levels over the next 6-12 months (as SG Collaborative expects), the overall return will likely increase to a level consistent with similar developments. The development team has stated that they continue to refine the overall costs of the project to improve its financial performance; they are confident that they will be able to demonstrate to the TIF Commission and the City Council, prior to the public hearing, that the project as proposed is financially feasible.

General Site Economics

- SG Collaborative is requesting a TIF for infrastructure with an approximate value of \$35 million, as of this analysis. This TIF amount represents roughly 11 percent of total costs, which is lower than most developments that require significant land assemblage. These funds will then be allocated to the construction of new infrastructure in the Douglass Hill District. Without this investment in public infrastructure, it is unlikely that that the District could attract significant private investment or result in a change of use that would generate fiscal benefit to the City of Webster Groves. As the plans may change through the review process, the amount of assistance may change as well.
- In addition to the TIF, the developer plans to introduce a CID that will include a one percent sales tax on all retail sales in the District.
- The developer may elect to utilize other economic development tools, including a special assessment imposed by the CID to provide "tax certainty" for owners and lessees within the project, but the assessments would not materially impact the amount of TIF requested.
- The current pro forma does not include any consideration for workforce housing as part of its total 614 apartment units at this time. Using traditional financing vehicles, the inclusion of workforce housing would further reduce the financial returns for the project due to the lower rents that workforce housing achieves. The development team is aware that workforce housing will be required, and is exploring other financing vehicles and partnerships to facilitate that without further impacting the project's feasibility.
- The current pro forma includes the costs to acquire a new fire truck that will be capable of serving seven

story buildings. In addition, the costs to acquire the existing Webster Groves School District property and construct a new storage facility are included. The pro forma assumes that the school district will provide the property on which the new structure would be built.

- The preliminary pro forma shows the overall IRR of the project with TIF is roughly eight percent. Although that rate of return would be acceptable for a stand-alone multi-family project, it is below the range that would be considered acceptable for a project requiring multiple phases of construction of varying product types (generally, an IRR between 12 and 15 percent would be required). As noted, the development team is working to reduce the overall cost of the project over the next three to four months, so that they can demonstrate the financial feasibility of the project.
- Without TIF, the project is expected to have a negative 0.1 percent return.

DISCLAIMER OF LIABILITY FOR ANY INACCURACIES CONTAINED HEREIN

These projections are based on currently available information and assumptions, in the form of a pro forma provided by the Developer. Development Strategies (“DS”) believes they constitute a reasonable basis for its preparation. **These projections are not provided as predictions or assurances that a certain level of performance will be achieved.** The actual results will vary from these projections and those variations may be material. Because the future is uncertain, there is risk associated with achieving the results as described herein. **DS assumes no responsibility for any degree of risk involved.** Neither this document nor its contents may be relied upon for the following purposes: any official statement for a bond issue and/or consummation of a bond sale, any registration statement, prospectus, loan, or other agreement or document related to bond issuance, without prior review and written approval by DS. The above list is provided as an example and is not meant to be exhaustive.

DS neither verified nor audited the information that was provided by other sources. **Information provided by others is assumed to be reliable, but DS assumes no responsibility for its accuracy or certainty.**

INTRODUCTION

To forecast the future financial performance of a development project, a developer typically creates a pro forma that details the costs to develop and operate a project, along with the expected revenues from ongoing operations and the eventual sale of a property. Typically, the pro forma will be forecasted over multiple years, ending at the eventual disposition or sale of the property. Periodic cash flows are then analyzed to determine the internal rate of return, or IRR. A host of assumptions are included in a pro forma to forecast this future financial performance.

The purpose of this memo is to generally review the submitted preliminary pro forma for the Douglass Hill project, and opine on the estimated financial returns of the project. This memorandum will describe the key assumptions, issues, and methods that are used to estimate the financial returns for each Redevelopment Project Area and the project as a whole.

This memo is focused on the developer's estimate of financial feasibility of the proposed project and the need for the requested development incentives. The memorandum does not include analysis of financial feasibility of development that may occur on parcels that may be sold to other developers, such as the office or townhome sites.

KEY ASSUMPTIONS

Program

At present, the developer proposes the following program, which is included in the pro forma analysis:

TOTAL PROJECT PROGRAM													
USE	RPA 1			RPA 2			RPA 3			TOTAL PROGRAM			PROJECTED COMPLETION DATE
	BUILDING SF	NUMBER OF UNITS	PARKING SPACES	BUILDING SF	NUMBER OF UNITS	PARKING SPACES	BUILDING SF	NUMBER OF UNITS	PARKING SPACES	BUILDING SF	NUMBER OF UNITS	PARKING SPACES	
SITework & INFRASTRUCTURE													2022
OFFICE				117,700						117,700			2024
RESTAURANT	4,225			3,000			3,000			10,225			2025
RETAIL	4,225			3,000			3,000			10,225			2025
APARTMENTS	321,860	418		83,160	108		67,760	88		472,780	614		2025
CONDOS	78,768	48					78,768	48		157,536	96		2026
TOWNHOMES	TBD	16								TBD	16		N/A
PARKING	TBD		669	TBD		173	TBD		211	TBD		1,053	2026
TOTAL		482	669		108	173		136	211		726	1,053	

The developer expects to sell the parcels intended for the development of the office and townhome components to other developers who specialize in those product types. In addition, it should be noted that the pro forma assumes that all residential units will be market rate.

Construction Assumptions

SG Collaborative has assumed that the construction of the main infrastructure components will take approximately one year. The development of the apartment/condominium components for each RPA will last roughly 1.5 years from the commencement of construction. Additionally, it is assumed that the office building construction will last around 1.5 years. These timelines appear to be in line with similar projects in the area.

The pro forma assumes that construction costs will be spread equally across the assumed months to build each component. In reality, it is likely that the construction costs will fluctuate monthly. This has a minor impact on the

overall estimated returns.

Cost Assumptions

The developer has provided high-level cost estimates for various components of the project, including the land acquisition, hard construction costs, soft construction costs, and interest reserve costs. Below is a table describing the high-level costs by RPA:

TOTAL PROJECT COST (in 2021 Dollars)					
ITEM	INFRASTRUCTURE COSTS (IN MILLIONS)	RPA 1 PROJECT COSTS (IN MILLIONS)	RPA 2 PROJECT COSTS (IN MILLIONS)	RPA 3 PROJECT COSTS (IN MILLIONS)	TOTAL PROJECT COSTS (IN MILLIONS)
INFRASTRUCTURE	\$31.8	\$0.0	\$0.0	\$0.0	\$31.8
ACQUISITION	\$20.0	\$0.0	\$0.0	\$0.0	\$20.0
OFFICE	\$0	\$0.0	\$39.4	\$0.0	\$39.4
APARTMENTS/CONDOS/T OWNHOMES	\$0	\$135.9	\$29.7	\$55.3	\$220.9
INTEREST RESERVE	\$2.0	\$3.5	\$0.8	\$1.4	\$7.7
TOTAL	\$53.8	\$139.4	\$69.9	\$56.7	\$319.8
TOTAL TIF REQUESTED					\$35.0
RATIO OF TIF TO PROJECT COST					10.9%

Please note that for the calculations of the returns of each individual RPA, the land acquisition costs are allocated amongst each individual RPA. For the calculation of the overall project return, the land acquisition cost is assumed to be part of the initial infrastructure work.

Apartment Operations & Sales

In order to estimate the future financial returns, the pro forma includes an estimate of the expected revenues and costs to operate the project, along with an estimate of the net proceeds of the sale of any portion of the project in the future. The future sales price is based on an estimate of the future net operating income of the property, divided by a capitalization rate.

The developer has assumed gross rents for market rate units in the District ranging from \$2.25 to \$2.39 per square foot, to account for construction of the later phases of the apartments. All apartment units in the development are assumed to be market rate at this time, but the developer is aware of the City's desire for workforce housing and intends to incorporate those costs into the pro forma. While the addition of workforce housing—and the lower rents it generally entails—will negatively impact the returns of the project, the developer is exploring financing structures and partnerships that would allow the inclusion of the workforce housing while maintaining the overall profitability of the project.

In addition, the developer has assumed a lease-up rate of 20 units per month for all of the units. Once stabilized, it is assumed that the property will consistently be 95% occupied. These assumptions are in line with similar higher-end developments in the area.

The developer has assumed operating expenses totaling roughly 37 percent of the effective gross apartment rental income. While on the higher side, this is not out of line with similar properties.

Finally, the pro forma includes an assumed 5.25 percent capitalization rate, which is used to calculate the eventual sales price of the property based on the net operating income. At present, multifamily properties are trading at about five percent according to information provided by Stifel Nicolaus. The Developer states that it has no plans to sell the apartments, so the capitalization rate is only a reference point.

Retail Operations & Sales

For the retail portion of the project, the developer has assumed rents of \$25 per square foot, which is reasonable for the type of development proposed. The project further assumes that it will take six to eight months to fill retail spaces once they are completed. Once occupied, it is assumed that the retail spaces will remain at 95 percent occupancy.

It is assumed that the cost to operate the retail space will claim nearly 33 percent of the effective gross retail income once stabilized. The pro forma assumes an exit capitalization rate of 5.25 percent. Retail and office properties, when leased by strong, national brands, can trade between 5.5 and 6.5 percent according to information provided by Stifel Nicolaus.

Condominium Sales

SG Collaborative assumes that the average sales price per condominium would be roughly \$690,000. It is assumed that around 70 percent of the units will be pre-sold, or sold within the first few months of completion. After that initial completion, approximately one unit will be sold per month.

Townhome Parcel Sale

At this point in time, SG Collaborative is exploring selling the townhome parcel to a developer that specializes in that product type. They assume that the parcel will sell for \$640,000, or \$40,000 per projected townhome unit. Assuming that the land cost represents between 10 and 15 percent of the eventual sales price, this would translate into an ultimate sales price of \$270,000 to \$400,000 per townhome, which seems reasonable given similar properties

in the area.

Office Parcel Sale

In addition to the townhome parcel, it is assumed that a developer who specializes in office building development will purchase the office parcel. Based on current market conditions for prepared sites suitable for office development, SG Collaborative assumes that the parcel will sell for roughly \$4.2 million, which is roughly ten percent of the projected total development cost.

Financing Assumptions

The developer assumes that equity contributions for various portions of the development will run between 26 and 35 percent of total development costs, which is a reasonable range for the variety of products that are proposed for the development.

Divestment Assumptions

SG Collaborative is currently projecting that all of the buildings that they construct directly will be sold by the middle of 2029.

KEY CONSIDERATIONS

Because the proposed development requires significant investment of roughly \$53 million in infrastructure and land costs, it is assumed that the entirety of the proposed TIF amount of \$35 million will be allocated to those costs. In calculating the impact of the TIF on the overall financial feasibility of the project, it is important to remember that these significant costs, which will be contemplated as part of RPA 1, allow for the development of the entire area. Thus, the developer has elected to calculate the individual returns for each RPA without allocating those infrastructure costs to a single project area.

The impact of the infrastructure costs is shown in the calculation of the overall return of the entire project, which is roughly eight percent. Although that rate of return would be acceptable for a stand-alone multi-family development, it is below the range that would be considered acceptable for a project requiring multiple phases of construction of various product types. The developer is working to further refine and reduce project costs, and they will revise the pro forma over the next three to four months as revised costs become available.

OVERALL PRO FORMA FINDINGS

RPA 1

The overall IRR for RPA 1, including the cost of land but excluding the impact of infrastructure costs, is roughly 4.7 percent on an annual basis. This return is extremely low for equity investment, and conversations with the developer point to continued efforts to further refine costs. Please note that in the table on page 5, the land costs are included in the infrastructure column due to the method used to calculate the overall returns of the project.

RPA I

	2021	2022	2023	2024	2025	2026
Project Costs (Does not Include Interest Reserve)	\$ -	\$ 85,074,672	\$ 63,198,205	\$ 1,934	\$ -	\$ -
Projected Cash Flow After Debt Service (Does not Include Infrastructure Costs)						
Project Inflow	\$ -	\$ -	\$ 1,275,057	\$ 7,394,506	\$ 2,278,947	\$ 46,670,898
Project Outflow	\$ -	\$ (48,730,773)	\$ -	\$ -	\$ -	\$ -
Combined Cash Flow After Debt Service	\$ -	\$ (48,730,773)	\$ 1,275,057	\$ 7,394,506	\$ 2,278,947	\$ 46,670,898
IRR	4.7%					

RPA 2

The overall IRR for RPA 2, including the cost of land but excluding the impact of infrastructure costs, is roughly 14.3 percent on an annual basis. This return is within the acceptable range for investment. Please note that in the table on page 5, the land costs are included in the infrastructure column due to the method used to calculate the overall returns of the project.

RPA II

	2021	2022	2023	2024	2025	2026	2027	2028
Project Costs (Does not Include Interest Reserve)	\$ -	\$ -	\$ 15,558,720	\$ 16,867,217	\$ -	\$ -	\$ -	\$ -
Projected Cash Flow After Debt Service (Does not Include Infrastructure Costs)								
Project Inflow	\$ -	\$ -	\$ -	\$ -	\$ 699,974	\$ 778,951	\$ 840,777	\$ 19,695,037
Project Outflow	\$ -	\$ -	\$ (11,669,305)	\$ -	\$ -	\$ -	\$ -	\$ -
Combined Cash Flow After Debt Service	\$ -	\$ -	\$ (11,669,305)	\$ -	\$ 699,974	\$ 778,951	\$ 840,777	\$ 19,695,037
IRR	14.3%							

RPA 3

The overall IRR for RPA 3, including the cost of land but excluding the impact of infrastructure costs, is roughly 13.2 percent on an annual basis. This return is within the acceptable range for investment. Please note that in the table on page 5, the land costs are included in the infrastructure column due to the method used to calculate the overall returns of the project.

RPA III

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Project Costs (Does not Include Interest Reserve)	\$ -	\$ -	\$ -	\$ 26,100,920	\$ 34,363,907	\$ -	\$ -	\$ -	\$ -
Projected Cash Flow After Debt Service (Does not Include Infrastructure Costs)									
Project Inflow	\$ -	\$ -	\$ -	\$ -	\$ 1,458,754	\$ 9,107,196	\$ 1,410,103	\$ 681,904	\$ 12,887,688
Project Outflow	\$ -	\$ -	\$ -	\$ (16,735,121)	\$ -	\$ -	\$ -	\$ -	\$ -
Combined Cash Flow After Debt Service	\$ -	\$ -	\$ -	\$ (16,735,121)	\$ 1,458,754	\$ 9,107,196	\$ 1,410,103	\$ 681,904	\$ 12,887,688
IRR	13.2%								

Overall Project

The pro forma for the overall project includes the impact of the infrastructure spending. The construction of this significant infrastructure, combined with the relatively high purchase cost for land, have a significant impact on the pro forma. With TIF, a return of roughly eight percent is forecasted, which is well below a targeted 12 to 15 percent return. The developer believe construction costs will return to more-normal levels over the next three to four months, which will result in a revised pro forma within an acceptable range for investment.

Please note that the pro forma for the entire project assumes that the land purchase is part of the overall infrastructure portion of the project. Thus, the overall cost of the entire project is slightly different because of the way in which the pro forma treats the timing and financing of that land purchase.

TOTAL TIF	2021	2022	2023	2024	2025	2026	2027	2028	2029
Project Costs (Does not include Interest Reserve)	\$ -	\$ 72,659,872	\$ 76,065,678	\$ 37,862,413	\$ 34,363,907	\$ -	\$ -	\$ -	\$ -
Projected Cash Flow After Debt Service (Does not include Infrastructure Costs)									
Project Inflow	\$ -	\$ -	\$ 2,048,820	\$ 7,806,474	\$ 4,868,711	\$ 66,576,150	\$ 2,451,396	\$ 22,313,358	\$ 15,131,249
Project Outflow	\$ (16,748,483)	\$ (44,387,348)	\$ (10,685,143)	\$ (15,145,212)	\$ -	\$ -	\$ -	\$ -	\$ -
Combined Cash Flow After Debt Service	\$ (16,748,483)	\$ (44,387,348)	\$ (8,636,323)	\$ (7,338,738)	\$ 4,868,711	\$ 66,576,150	\$ 2,451,396	\$ 22,313,358	\$ 15,131,249
IRR	8.2%								

Without TIF, the project is forecast to have a *negative* IRR of 0.1 percent. At this rate, the project would not be feasible.

TOTAL TIF	2021	2022	2023	2024	2025	2026	2027	2028	2029
Project Costs (Does not include Interest Reserve)	\$ -	\$ 72,659,872	\$ 76,065,678	\$ 37,862,413	\$ 34,363,907	\$ -	\$ -	\$ -	\$ -
Projected Cash Flow After Debt Service (Does not include Infrastructure Costs)									
Project Inflow	\$ -	\$ -	\$ 2,048,820	\$ 7,806,474	\$ 4,868,711	\$ 66,576,150	\$ 2,451,396	\$ 22,313,358	\$ 15,131,249
Project Outflow	\$ (25,638,880)	\$ (70,496,950)	\$ (10,685,143)	\$ (15,145,212)	\$ -	\$ -	\$ -	\$ -	\$ -
Combined Cash Flow After Debt Service	\$ (25,638,880)	\$ (70,496,950)	\$ (8,636,323)	\$ (7,338,738)	\$ 4,868,711	\$ 66,576,150	\$ 2,451,396	\$ 22,313,358	\$ 15,131,249
IRR	-0.1%								

CONCLUSION

Overall, the proposed Douglass Hill redevelopment project has a positive pro forma. However, the extraordinary costs to introduce modern infrastructure to the area to make it adequate for development, combined with high acquisition and construction costs, means that the project overall has a relatively low IRR based on construction costs as they exist today. SG Collaborative is working to further refine and reduce costs to improve the overall financial outlook for the proposed project.