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The Artisan Lofts of North Saint Paul

A Live/Work Development Proposal



Created by Pierce Conway, Vuthy Taing, and Calway
McCormick
RESILIENT COMMUNITIES PROJECT

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Resilient Communities Project

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Artisan Lofts of North Saint Paul

Written Proposal

Vuty Taing, Calway McCormick, Pierce Conway

CVP Development¹, Inc. is proposing to work with a master development team to develop a three building live/work rental housing complex, totaling 36 units, in the Northeast Corridor of North St. Paul. This project will create a mixed income live/work/shop/play neighborhood and that will establish the downtown corridor of North Saint Paul as the destination for connoisseurs of quality artisan goods, such as antiques, furniture, art, sculpture, clothing, jewelry, and artisan foods. In each of the three buildings plans will incorporate four 2-level market-rate Live/Work units, occupying the first two floors, and eight live-only, affordable units on the third. Built one building at a time, this development seeks to achieve multiple objectives, including:

- Create a viable live/work/shop/play concept
- Preserve the authentic character of downtown
- Provide quality housing and workspace for mixed income individuals
- Build green buildings that are energy conscious and self-sufficient
- Ensure Financial Success
- Establish a sustainable operation
- Achieve community support

Create a viable live/work/shop/play concept

The Live work concept isn't a new one. In fact, many of the old mix-use buildings in downtown were live/work. Merchants worked in the main level store fronts and also lived above them. This eliminated commute time and allowed the merchants to be more productive. In addition, it created a vibrant neighborhood as shopping and dining were all within walking distance. The Artisan Lofts revitalizes this smart way of living and aims to build a community of Artisans who are inspired to create and retail their quality hand-made goods. This will establish the Northeast 7th Ave corridor as a unique and wonderful destination attracting both new and existing residents of North St. Paul with a new style of living shaped by the past.

Preserve the authentic character of downtown

North St. Paul is unique in that it has a downtown that has preserved its authentic characteristics. This is unique because we now mostly see towns with shopping malls and strip centers surrounding the Twin Cities. The Artisan Lofts will preserve this quality and leverage it to appeal to shoppers and tenants. This is accomplished through paying

¹ Cal, Vuthy, & Pierce Development

strict attention to the physical attributes of the design and site.

Physical attributes

The facade is made up of three parts: storefronts are at street level, second and third floor are living quarters, and a cornice at the very top. Exterior cladding of each building will be stucco, and brick to match existing architecture, see the elevation view in appendix A. The floor plan is located in appendix C, D, and E.

Site & surrounding

As of right now our area is vacant industrial land that can be considered a grey field. There are a few residential developments along 7th Avenue and Seppala Boulevard as you approach Margaret and Charles Street but much until blocks of single family homes begin south of 7th Avenue. According to NSP Master Plan the following is proposed to be developed surrounding our site:

The 7th ave downtown strip is currently the main center of commerce and social gathering in North Saint Paul and by placing our development at the northern tip of the strip, we will provide residents with many outlets for restaurants, retail and other services. As a live/work development we hope that our residents will contribute their works to local cultural events as well as to the antique stores, the professional interior design service Design Vertigo and the architecture firm DSGW Architects.

Another major land use feature is the Gateway Bike Trail which is going to be further enhanced and will contribute to establishing North Saint Paul as a walkable and bikeable community. To encourage the use of this amenity, we will include secured first floor bike storage for our residents. We hope for our site in particular to provide the perfect balance of comfortable living and easy access to downtown amenities.

Provide quality rental housing and workspace for mixed income individuals

According to North St. Paul's comprehensive plan, the proposed location between Margaret and Charles street by 7th Avenue is in need of housing, in particular mixed-use development which is another name for live/work. The plan emphasizes the need for high density mix use and below middle income housing to support the residents of the neighborhood with proportionately below average incomes. The Artisan Lofts fulfills this by combining live/work/retail in one unit. This will allow for artists, craftsmen, and entrepreneurs to have a professional space without accruing additional expenses of traditional retail, justifying the rent amount set for the live/work units. In addition, this development addresses the critical need for affordable housing for teachers, firefighters, and police officers, which the upper level units will be marketed towards. The set aside housing is only for tenants who lay within a given income range.

Ensure Financial Success

CVP Development will achieve financial success by meeting the needs of all stakeholders. This includes providing affordable rents to tenants, profit to developers, and meeting lender's guidelines (additional financial data in Appendix G, H, and I). In addition, proper marketing will be important to achieving a high lease out rate.

Rental Revenue Summary

Apartment Unit Types	No. of Units	Rent/Ft ²	Area/Unit (ft ²)	Total Ft ²	Rent/Month/Unit	Total Annual Rent
Efficiency	2	\$1.26	468	936	\$590	\$14,152
1 Bedroom, 1 Bath	4	\$1.26	676	2,704	\$852	\$40,884
2 Bedroom, 1 Bath	2	\$1.26	1,118	2,236	\$1,409	\$33,808
Store Front, 2 Bedroom, 2 Bath	4	\$1.30	2,392	9,568	\$3,110	\$149,261
<hr/>						
Total Apartment Rental Revenue	12	\$1.28	1,287	15,444	\$1,654	\$238,106
<hr/>						
Other Rental Revenue ^a						\$9,800
Other Miscellaneous Revenue ^b						\$1,200
Total Rental Revenue	12	\$1.34	1,287	15,444	\$1,654	\$249,106

Pro Forma NOI

	Factor	Annual Revenue/Cost
Revenue		
Gross Potential Revenue ^a		\$249,106
Less: Vacancy	5.00%	(\$12,455)
Less: Bad Debt	0.50%	(\$1,246)
Effective Gross Revenue		\$235,405
Expenses^b		
Property Management	3.00% of Effective Gross Revenue	\$7,062
Controllable Costs ^c	\$1,950 per unit	\$23,400
Real Estate Taxes	1.36% of estimated total project cost	\$135,000
Insurance	\$400 per unit	\$4,800
Utilities	\$500 per unit	\$6,000
Replacement Reserve	\$150 per unit	\$1,800
Total Expenses		\$178,062
Net Operating Income		\$57,343

Maximum Debt Calculation

Pro Forma Net Operating Income (NOI) and Value

Pro Forma NOI ^a	\$57,343
Capitalization Rate	6.00%
Value of Income Property Only (NOI / Cap Rate)	<u>\$955,716</u>

Loan Terms

Interest Rate	5.75%
Amortization (years)	30

Debt Based on Loan to Value (LTV)

Maximum LTV Percentage ^b	75.00%
Maximum Loan Based on LTV for Income Property	<u>\$716,787</u>

Using Debt Coverage Ratio (DCR)

Monthly NOI	4,779
Maximum DCR	1.20
Maximum Monthly Payment (NOI/DCR/12)	<u>\$3,982</u>
Maximum Loan Based on DCR for Income Property	<u>\$682,374</u>

Maximum Loan (Lesser of LTV or DCR Result)

Maximum Loan for Income Property ^c	\$682,374
Add: Loan for For-Sale Property ^d	<u>\$0</u>
Total Initial Project Debt	<u>\$682,374</u>

Marketing

The greatest need of North Saint Paul as a city is for attractive new apartments that also encourages the idea of North Saint Paul and the surrounding area being a safe walkable and bikeable community. Our target market will be artists, craftsmen, and local entrepreneurs hoping to contribute to the community of North Saint Paul. As well, young couples with plans to begin a family while also having creative outlets will be marketed towards in order to create a source of longer term residency. As seen in Appendix C, the units with two bedrooms would be perfect for those young families.

There are multiple senior living developments a part of the NSP Comprehensive Plan, so we hope to usher in a younger population to the area that will help develop and energize the character of North Saint Paul while holding and spurring the interest and support of current residents. Marketinting for this demographic could begin at other metro area live/work units that may have already reached capacity, but draw potential tenants.

The strong reputation of North Saint Paul's antique stores should be another dominant factor for why people will choose to move to North Saint Paul and take residence in our live/work craftsmen-themed development. We will welcome residents of all ages and economic status, as well as both single households and families. We are looking more for a similar market of the Northern Warehouse

Artist Cooperative (NWAC). We want people of lower incomes and very creative backgrounds; people who will be excited to use work amenities and keep them in good shape for other residents.

Considering that this is such a specific target market niche with comparatively low demand, we will need to work very hard to stimulate the market for living in our development. Competition will be undoubtedly be low but local and regional marketing will still need to be persistent. We will advertise at local craft and trade schools in Minnesota, and some surrounding states, as well as local institutions in the Twin Cities. An example is the Minneapolis College of Art and Design or the The Art Institutes International Minnesota. Lastly, we have a goal of achieving 80% lease out rate prior to completion date.

Establish a sustainable operation

Once the building is built and leased out a sustainable operation is critical to the long term success of this development. This will be accomplished through a team of staff members consisting of managers, leasing agents, and building maintenance.

Managers

Managers would be solely responsible for the property, and be hired from a management firm. The management firm would most likely be managing multiple buildings, and have the superior expertise.

Leasing agents

The first building will be leased up by a hired firm of leasing agents. The leasing professionals will assure that prospective tenants will receive the best possible first impression.

Building Maintenance

The tenants will be solely responsible for keeping the interior of their units clean. The landlord and or property manager will be the responsible party regarding repairs and maintenance. The lease will include a clause stating what damage would financially be the tenants responsibility and what damage would fall on the management. The maintenance outside the units inner walls will fall on the manager, similarly to a condominium association. Landscaping, snow removal, and building appearance will be the management's responsibility and is factored into the rent charge.

Build green buildings that are energy conscious and self-sufficient

To start, our building will strive feature simple green design strategies to encourage sustainable lifestyles among our management and residents. Eventually we hope to be at least LEED Certified Silver, which means 33-38 points on the LEED Checklist of the US Green Building Council. Depending on building success we may pursue the implementation of solar panels suspended from balconies and roof mounted wind turbines.

Inside, units will include energy efficient features like sensed fluorescent light bulbs, highly efficient dishwashers and washing machines, ultra-low flow faucets and toilets and lastly insulation used from recycled material. As well, large windows will be worked into the building design to allow for a lot of natural light and they will be operable to allow natural ventilation which will reduce air conditioning costs. To go along with encouraging green lifestyles among our residents, recycling and compost bins will be included in units.

The urban farm area will be located on the roofs of each building and will have adequate space to grow fruits, vegetables and whatever else residents may desire. Residents will pay for portions of the garden and the gardens will be slightly monitored by building management to make sure that all tools and such are used appropriately. Portions of land will be able to be rented by any resident. This will potentially create a network of trading and/or buying and selling produce between residents. It will also help reduce food costs of residents and minimize the amount of times they have to travel to the store for fresh produce and reduce the solar heat gain of the building as a green roof.

The exterior building materials chosen will not only compliment local architecture, but also respond well to solar heat gain. The residential floors will feature brick exteriors that have high albedo levels and will absorb a lot of heat in the winter. Light colored stucco at the storefront level will reflect sun away and reduce the amount of cooling needed for these open areas. Other design features that will help us reach that LEED silver certification will include effective storm water management, bike storage and access to public transit, landscaping with native species, and, in construction, using building materials with little to no VOC's and using Forest Stewardship Council Certified lumber.

Achieve community support

CVP Development goal is to provide live/work housing that parallels the needs and wants of the community and the city's comprehensive plan. Currently the neighborhood of North St. Paul is undergoing a rezoning period from mix use to high density. The Artisan Lofts of NSP 36 unit live/work development fits well into this new zoning district. In addition, CVP Development will hold community meetings to ensure that the project

vision is in line with the surrounding community. Secondly, the artistic studio spaces provided in the basement level will provide residents with a creative outlet. This outlet will can extend out into the community as resident's creations can be featured in local galleries, at community cultural events and even be used by the professional interior design service on the downtown strip, Design Vertigo.

Appendix

A.



B.

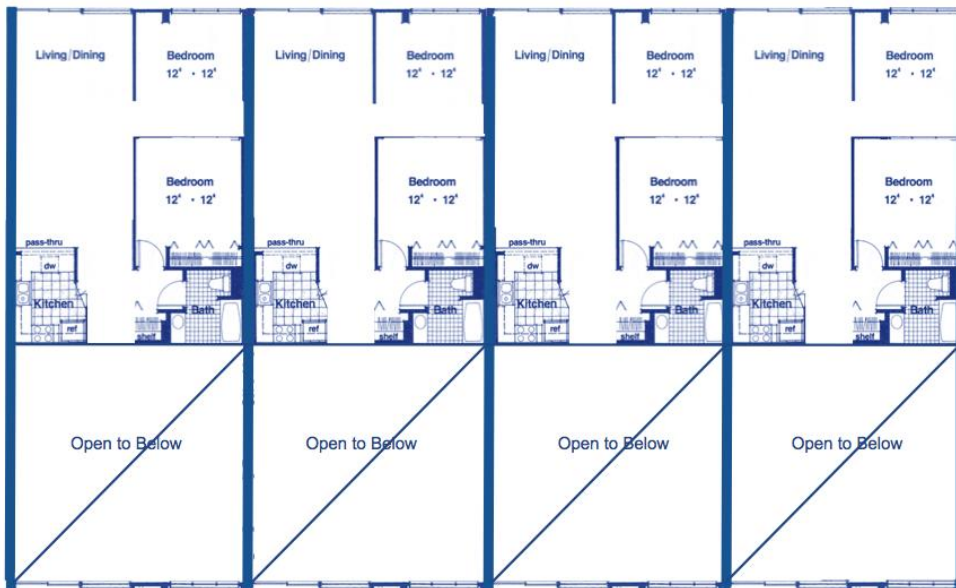


C.



Third Floor Apartments

D.



Second Floor Storefront Split

E.



First Floor Storefronts

Development Costs

		Gross ¹	Total Usable
Number of Units		12	12
Square Footage (Input Gross)		15,552	0
Percentage of Total Square Footage			100%
Development Costs²			
Land	\$0.00	per gross ft ²	\$0
Land Carry ³	0.00% rate	12 months	0
Approval Fees	\$0.00	per gross ft ²	0
Environmental Remediation	\$0.00	per gross ft ²	0
Construction Hard Cost	\$98.77	per gross ft ²	1,536,122
Soft Costs:			
Architecture & Engineering	5.06%	of hard cost	77,661
Legal & Other Fees	\$228,910	estimate	228,910
Appraisal & Title	\$10,883	estimate	10,883
Marketing	\$1,225	per total units	14,700
Taxes during Construction	\$50,000	estimate	50,000
Insurance during Construction	\$19,800	estimate	19,800
Total Soft Costs			401,954
Contingency	2.82%	of hard cost	43,315
Total Development Cost before Interest and Operating Reserve			\$1,981,391
Estimate of Construction Interest⁴			
Construction Loan	\$682,374		
Construction Interest	12.00%		
Construction Period (months)	12		
Average Draw	65.00%		
Estimated Construction Loan Interest			53,225
Total Project Cost before Operating Reserve			\$2,034,616
Estimate of Operating Reserve⁵			
Gross Potential Rent (monthly)	\$20,759		
Lease-Up Period (months until stabilization)	6.0		
Average Occupancy during Lease-Up	65%		
Estimated Rent during Lease-Up		80,959	
Estimated Op. Expenses during Lease-Up		89,031	
NOI during Lease-Up		(8,072)	
Construction Interest during Lease-Up		40,942	
First-Year Operating Reserve Required			49,014
Total Project Costs			\$2,083,630
<i>Less: Development Cost Subsidies</i>			
			(1,276,984)
G. Total Project Costs after Subsidies			\$806,647

H.

Summary Analysis & Simple Ratios

Net Operating Income (NOI)	57,343
Total Project Cost	2,083,630
<i>Less: Development Subsidies</i>	<u>(1,276,984)</u>
Project Cost after Subsidies	806,647
<i>Less: Development Cost of For-Sale Condominiums</i>	<u>0</u>
Total Adjusted Cost for Income Property Only	806,647
Overall Return, Overall Cap Rate (NOI/Total Adjusted Cost)	7.1%
Net Operating Income	57,343
Annual Debt Service ^a	<u>47,786</u>
Cash Throw-Off (CTO or BTCF)	9,557
Total Adjusted Cost	806,647
Permanent Mortgage ^b	<u>682,374</u>
Equity	124,273
Cash-on-Cash Return (CTO/Equity)	7.7%
Development Profit for Apartments	
Net Operating Income	57,343
Overall Cap Rate at Sale	6.0%
Capitalized Value (NOI/Cap Rate)	955,716
<i>Less: Total Adjusted Cost</i>	<u>(806,647)</u>
Development Profit	149,069

I.

Financial Summary

The Total Cost Pre Subsidy is \$2,083,630. The total (Pre Subsidy) cost per unit is (\$173,635)

The estimated cost of the project will be \$806,647 after subsidies for the initial phase (first of three.) The adjusted cost per unit after subsidies would be \$67,220. The financing for this project will come from multiple sources:

- 1.) Owners Equity
- 2.) A Commercial Bank Loan

	Total Cost	Cost Per Unit
Pre Subsidy	\$2,083,630	\$173,635
Post Subsidy	\$806,647	\$67,220

The owners will provide \$161,329 of equity, and ask for a loan of \$645,318, this would give the project a LTV ratio of %80.

Given that the top floor of the building will be used to support teacher, firefighters, etc... that floor will be "Low income." Grants for this section of the project could potentially come from:

- 1.) HOME block grant
- 2.) LIHTC
- 3.) CBDG